A Systematic Literature Review on Financial Stress of Small and Medium Entrepreneurs

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ABSTRACT

Financial stress, which has become a contemporary issue in the globe, directly and indirectly affects individual's behavior and disorders their physical and mental health. The main purpose of this study is to evaluate critically, the literature on financial stress of small and medium entrepreneurs and to build a financial stress-mitigating framework. The objectives of this study are to find the different aspects, measures and the level of financial stress of small and medium entrepreneurs to determine the consequences and methods of improving the financial stress to help policy makers to actively fill this missing gap and ultimately achieve economic development. The methodology used in this study was to review literature systematically using a sample of 151 most relevant studies published from 1936-2017 and critically appraise and synthesized findings qualitatively. The study revealed financial stress is less with those who are employed; elderly, having a lower debt load as a percentage of income, and possess better health and family relationships. Further, the financial stress is a cause of depression, anxiety, poor academic performance, unscheduled absence from work and negatively affects individual health, self-esteem, marriage satisfaction, parenting role and family functions. Hence, the study recommends overcoming financial stress as necessary to develop problem solving and financial management skills, develop effective handling of economic hardships, introduce more flexible repayment plans for loans; improve positive financial behaviors and budgets.

KEYWORDS: Financial stress, Small and medium entrepreneurs, Subjective and objective financial stress

Introduction

In advanced global economies, entrepreneurs face financial stress because of the inability to meet financial demands, affording the necessities of life, and lacking sufficient funds to make ends meet (Northern et al. 2010). The recent studies conducted on Small and Medium Entrepreneurs in Sri Lanka revealed that there is a tendency to issue cheques with insufficient funds in the bank account, regret marketing purchases, and make minimum payments, greater likelihood to pay interest, less likely to save regularly which are common factors in the level of financial stress (Sri Lanka Economic Association, 2017). The exiting theories discussed on financial stress are limited to sociology, psychology and the cognitive theory of stress and level of coping (Folkman, 1984), Roy Adaptation Model (RAM) (Roy, 1970), Empirical model (Lim et al., 2014), Double ABCX Model (Hill, 1949) failed to provide sufficient solutions for financial stress of Small and Medium Entrepreneurs. Stated contextual and theoretical knowledge deficiency of financial stress of small and medium entrepreneurs, importance of searching for answers to the underlying problem of "What extent existing research has progressed towards clarifying financial stress of Small and Medium Entrepreneurs?" Hence the purpose of this study is to address by identifying, critically evaluating and integrating the findings of all relevant, high-quality individual studies conducted on financial stress of Small and Medium Entrepreneurs and to build a financial stress mitigating framework. Based on this framework, a paper was organized to evaluate the literature on financial stress of SME, different measures of financial stress, consequences, and methods recommended by existing studies to overcome the financial stress. In order to provide answers to the research problem the objectives were set out to find the different aspects, different measures, and existing level of financial stress of Small and Medium Entrepreneurs. Further, to determine the consequences of financial stress and to determine the methods of reducing the level of financial stress and finally aid policy makers to fill the missing gap and ultimately achieve economic development.

Definition of Financial Stress

Financial stress is an outcome of persistent financial and economic issues faced by individuals, which create psychological hazards resulting in physical deterioration.

Definition on Small and Medium Entrepreneurs

Definitions of what constitutes an SME vary quite widely from country to country and even within a single country, depending on the business sector concerned, such as agriculture, natural resources, manufacturing, services, and retail (Economic and Social Commission for Asia and the Pacific, 2009). There is no clear and universally accepted definition for an SME. Different countries use various definitions for SMEs. There are three key parameters such as number of Employees, Turnover of business and Capital investments used to define SMEs globally. Developing countries in the Asia Pacific region expressed SMEs including microenterprises, as commercial entities with less than 100–300 employees. According to the (National Policy Framework for SME Developement, 2015), in Sri Lanka the SME policy framework defines SMEs based on the number of employees and annual turnover. Small and Medium sized Enterprises are therefore categorized as entities which employ less than 300 and achieve annual turnover not exceeding Rs.750 Mn. However, according to this classification, Micro Enterprises are also considered as SME

Subjective and Objective Financial Stress

The stress creates mismatch between demands and resources, which derive from the individual personal agendas and objective conditions (Lazarus, 1990).The said aspects have two different constructs that are Objective financial stress and Subjective financial stress. Stress according to (Lim et al., 2014) objective financial stress is a potential cause of financial stress among college students and subjective financial stress is the psychological aspects of stress & is defined by the same authors as a concern because of the negative health outcomes associated with increased levels of stress. Students with high subjective financial stress appear to be less likely to report high financial optimism (Lim et al., 2014). However, it is complex to understand the relationship between subjective and objective financial stress, academic performance, and mental health. In addition, financial self-efficacy has moderating function in coping with subjective financial stress (Lim et al., 2014). The study carried out by (Ross et al., 2006) expressed that there is a relationship between student perception on their debt level and academic performance and no relationship with their actual debt level whereas the current debt level has a significant relationship with subjective financial stress. As per (Forsberg, 2016) students with high objective financial stress are more likely to report high subjective financial stress and this relationship is moderated by financial self-efficacy. The study done by (Lazarus, 1991) has expressed that stress is composed based on causal antecedents (commitments, beliefs, or environmental variables, demands or situational constraints), mediating processes (appraisal of a situation and an assessment of personal coping options), and effects (immediate or long-term and may include areas such as psychological well-being, somatic health and social functions). The financial stress can arise from individual, family, or financial situations (Joo, 1998). The study carried out by (Wrosch et al., 2000) expressed ways of affecting financial stress on individual well-being.

Methodology

The methodology used in this study to review literature systematically & analyzed samples of 151 studies selected the most relevant articles published from 1936-2017 and critically appraised and synthesized findings qualitatively on financial stress of Small and Medium Entrepreneurs, different measures of financial stress, consequences and recommendations of existing studies to overcome financial stress

Literature Review

Different Aspects of Financial Stress

Different studies use different terms such as financial problems, financial stress, financial pressure, and financial distress interchangeably. According to the Financial Health Institute, financial stress is defined as "A condition that is the result of financial and/or economic events that create anxiety, worry, or a sense of scarcity, and is accompanied by a physiological stress response" (Financial Health Institute, 2015). The financial distress is a condition in which an individual or company cannot meet their financial obligations due to lack of earnings borne due to high illiquid assets, fixed costs or revenue sensitive to economic challenges (Kenton, 2019).

The financial pressure is an outcome of financial problems, which relates to debts and future financial concerns that significantly affect relationships and health. The financial stress is borne due to poor financial practices (Hayhoe et al., 2000), inability to meet financial responsibilities (Tacheuchi et al., 1991) and will increase negative health issues (Nelson et al., 2008; Matthews & Gallo, 2003). In 1881, George Beard stated that out of all forms of worry, financial is the most frequent, and for ordinary minds, the most distressing factor in their lives (Beard, 1881). The recent survey on "Stress in America Paying with Our Health" expressed, money is the most stressful factor than others in human lives (American Psychological Association, 2015). Acute financial stress is disorderly feelings thoughts and avoidant behavior related to finance. Although there are number of research studies which discussed financial distress of corporate bodies, research discussion arising from an Entrepreneurial perspective is limited.

The term stress was introduced from the field of Physics. The stress term was first used to describe sorrow, suppression, discomfort and adversity in 17th century (Peplau, 1968). The term reformed during 19th century had the meaning of a strong influence applied on a physical object or on a person (Raya, 1993). During 1920's Hans Selye known as the father of stress defined stress as "nonspecific strain on the body caused by irregularities in normal body functions and he named the stress as General Adaptation Syndrome" (Selye, 1936). The physician John Mason (Centre for Studies on Human Stress, 2017) disclosed that stress is an output of the combination of Novelty, Unpredictability, and Threat to ego and Sense of Control. As per historical evidence, stress can be categorized as Physiological stress, Psychological stress, Absolute stressors, and Relative stressors. However, each stress is interconnected with other forms of stressors.

In the current economic context, financial stress has become a significant issue throughout the globe. There is a significant positive relationship between financial stress and suicide. Financial stress further leads to the following: an increase in the level of alcohol consumption, depression, anger, frustration, blame, increase of arguments - particularly over money, increased withdrawals particularly from spouse and offer less emotional support, criticizing and insulting the other partner, reduced satisfaction level from the relationship, less responsive to the children's needs, less nurturing, less consistent in the parenting role, poor academic performance, reduced aspirations and expectations, withdrawing from society, declining physical health such as increase in headaches, stomachaches and insomnia (Mantler & Davis, 2004). Overall, financial stress leads to an increased pessimistic outlook on life, and reduced mental health in particular (Mantler & Davis, 2004).

Most of the theories relevant to financial stress are limited to Sociology and Psychology (Kessler et al., 1987; Jenkins et al., 2008). The cognitive theory of stress and coping by (Folkman, 1984) stated self-efficacy playing a mediator role between stress and help seeking behavior. However, several empirical studies expressed other than the self-efficacy; different factors have effects on the financial stress and financial help seeking behavior (Joo & Grable, 1999; Gentile et al., 2016).

In addition, Roy Adaptation Model (RAM) expressed (Roy, 1970), self-efficacy as an important concept, which influences behavior and perception and theory, says increased self-efficacy may reduce the financial stress (Lim et al. 2014). However apart from self-efficacy there are other factors which reduce financial stress (Kim & Garman, 2003; Jang, 2015), Double ABCX Model (Hill, 1949) and is mainly concerned with imbalance in demands, capability or resources, influence and its impact make crisis. The Model expressed that stress will ultimately lead to a crisis. However in addition to the factors the theory considered other factors such as financial sophistication, financial self-efficacy (Letkiewicz et al., 2014), financial help seeking behavior (Folkman, 1979; Lea et al., 1995) and effects on financial stress. Support mobilization theory (Barrera, 1988) expressed that social support received as a result of initial stress will create a buffer against the damaging effects of the stressor and did not consider the individuals financial management competencies (Betal, 2004), financial resources (Sonya et al., 2015); self-efficacy (Dietz et al., 2003).

Different Measures of Financial Stress

According to the study done by (Featherstone et al., 1988) on farm firms, the financial stress was measured by using solvency/leverage ratio, debt-to-asset ratio, and cash flow. The study done by (Fitzsimmons at al., 1993; Bagwell, 2000) asked the questions from respondents as "received an overdue notice from a creditor," "got phone call from creditor about past due bill," "home went into foreclosure," "had items repossessed," and "had wages garnished" and answers coded as 0 (never) and 1 (once and more than once). All the items were summed to make a financial stressor events score. Also past studies used lifestyle deprivations to measure financial stress (Whelan, 1994; Nolan & Whelan , 1996). According to (Marsh & McKay, 1993) measured financial stress of individuals using factors such as the problems of debt they have, cash flow problems, inability to spend money to purchase food, clothing, leisure pursuits, and financial anxiety.

In addition, it has been noted, some studies directly asked the question to measure financial stress as "What do you feel about the level of your financial stress today" with five options: overwhelming (5), severe (4), moderate (3), low (2), and none (1). Higher values mean higher levels of financial stress (Bagwell., 2001). Another way is asking the question as "Since January of 2002 did any of the following happen to you because of a shortage of money?" Possible responses included: an inability to pay utility bills on time, an inability to pay the mortgage or rent on time, pawning or selling something, asking for financial help from family or friends, asking for help from welfare or community organizations, an inability to heat the home, missing meals (Cobb-Clark & Breunig, 2005). Also past studies used Roy Adaptation Model to measure financial stress of the college students (Lim et al. 2014). The recent study done on individuals financial stress used a questionnaire which consisted of 6 sections covering demographics of respondents, their household characteristics, financial and economic factors, social and political factors, and selected cognitive, habitual and physical aspects of their beings that might have had an effect on the level of Financial stress level they uphold (Akhter & Zaman, 2015).

The Financial Stress of Small and Medium Entrepreneurs

In emerging economies, formal SMEs contribute up to 60% of total employment and 40% of GDP and these numbers are significantly higher when informal SMEs are included (World Bank, 2015). Converting informal SMEs in to formal sector can have considerable advantages. Although the SME provides significant contribution to the economies, Small and Medium Enterprises face many challenges in day-to-day operations having grown worldwide and currently experience financial stress due to lack of financial capability. The evidence of past studies includes both internal and external factors caused by SME business failure (Olawale, 2014). The internal factors, that are largely within the control of the organization include lack of management experience, lack of functional skills (e.g., planning, organizing, leading and controlling), poor staff training and development, poor attitude towards customers and lack of financial capability of the Entrepreneurs.

External factors are factors largely uncontrollable by the organization and include non-availability of a logistics chain and a high cost of distribution, competition, rising costs of conducting business, lack of finance and crime (Olawale, 2014). A study carried out in Nigeria, clearly expressed that poor financing, inadequate social infrastructure, lack of managerial skills and multiple taxation were major challenges confronting SMEs, and as a result, they were experiencing financial stress (Agwu & Emeti, 2014). In addition, the World Bank has clearly expressed, access to finance is the key constraint for consistent SME growth. Most SMEs rely more on internal funds or cash from friends and family, to launch and initially operate their Enterprises rather than obtain bank loans like large firms. About half of the SMEs do not have access to formal credit (World Bank, 2015). However, globally as well as in Sri Lanka, there are limited studies carried out on financial stress of Small and Medium Entrepreneurs. However, according to the study performed by (Hayhoe et al., 2000), on Financial Stress and Personal Characteristics of the School Teachers in Sri Lanka, there is a significant difference in financial stress among subjects for teaching, educational qualifications and working experience of the school teachers and there is no significant difference in financial stress among gender, age level and family size.

The Consequences of Financial Stress

The existing studies have documented the following negative outcomes of financial stress: (a) depression (Andrews & Wilding, 2004),(b) anxiety (Andrews & Wilding, 2004), (c) poor academic performance (Andrews & Wilding, 2004), (d) poor health (Northern, 2010), and (e) difficulty persisting towards degree completion (Joo et al., 2008).The financial stress creates pressure on individuals and families (Boss, 1988). However, stress is not always a negative thing, unless there are a number of uncontrollable factors. Financial stress grew into problem for many people in the world not just for low-income individuals (American Express Retirement Services, 2004; MetLife, 2003). Financial stress is one of the most common reasons for unscheduled absences from work (CCH Inc, 2002), especially with the white-collar workers (Kim & Garman, 2003).

There is negative correlation between financial stress and perception of one's health, self-esteem, marriage satisfaction, and family function (Bartley, 1994; Fox & Chancey, 1998). Further, it has been found that as financial stress increased, couples were more likely to quarrel and were more likely to break up. The financial stress reduced life satisfaction (Pittman & Lloyd, 1988) and also predicted lower ratings of satisfaction within one's marriage and lower ratings of satisfaction in one's role as parent.

The parents (Especially fathers) who are experiencing financial stress are less responsive to their children's needs, less consistent in their parenting, more inconsistent in their discipline of children (McLoyd, 1989).The children of financially stressed parents tend to be more prone to mental health problems, depression, loneliness, and more emotionally sensitive (Elder et al., 1985; Lempers et al., 1989). They are less social and more distrustful, and are more likely to feel excluded by their peers, especially if they are girls (Buss et al., 1983; Tacheuchi et al., 1991). Boys of financially stressed parents are likely to exhibit low self-esteem, show behavioral problems in school, be susceptible to negative peer pressure (Elder et al., 1985) and alcohol and drug related issues (Conger et al., 2000; Conger, 1999). Financial stress is related to poor academic performance in both boys and girls (Mistry et al., 2002). The measure of cost financial stress is difficult (Shain et al., 2002). The financial stress is consistently linked with increased risk for depression, substance abuse, and family conflict (Sauve et al., 2014). Because of experiencing financial stress, individuals foresee emotions like being guilty, inferiority, low self-worth, self-doubt, and gradually it to isolate them from society.

The financially stressed livelihoods can anticipate shameful sentiments such as self-doubt, inferiority, guilt, low self-worth and so on, eventually leading to a state of social exclusion (Scheff, 1990). According to the study done by (Kim & Garman, 2003) the employees with greater financial stress have greater absenteeism and were less committed to the organization. The several studies have identified the link between financial stress and absenteeism (Hendrix et al., 1987; Jacobson et al., 1996). The past study done on financial stress in Australian households; financial stress is associated with financial reasons, inability to enjoy a holiday, share meals with family and friends, and engage in hobbies and other leisure activities and general money management (Worthington, 2006). Further, the same study revealed that financial stress is higher among families with more children and those from ethnic minorities, especially when reliant on government pensions and benefits, and lower in families with higher disposable incomes and housing values. The individuals behave negatively with others, due to the impact of negative financial events (Had to pay large bill (e.g., household or auto repair, medical bill), overdrew checking accounts, had expensive household repairs, ran out of money to cover living expenses, were unable help a child or other family member with finances, conflicts with creditors (demanding phone calls or letters), lost money gambling) (Zautra et al., 2014).The financial stressors were derived from three sources: personal, family, and financial situations. Personal stressors include investment losses, injuries, disabilities, accidents, illnesses, and wage garnishments (Ackerman & Paolucci, 1983; Joo, 1998; Porter, 1990). Family stressors include major life-cycle events, such as marriages, births, retirement, job loss, divorce, and death.

The financial stressors also include personal consumer choice situations, such as, moving, paying for household and vehicle repairs, foreclosures, legal problems, bankruptcy, medical bills, and pre-existing excessive consumer debt. These type of stressors tend to increase total stress levels, as well as financial stress levels, which in turn, tend to lead to a lower level of financial satisfaction (Freeman et al., 1993; Joo, 1998). The existing literature findings have often shown that financial stress is negatively related with financial satisfaction (Bailey et al., 1998) financial behaviors (The past studies expressed financial behaviors) can affect financial satisfaction (Godwin, 1994; Mugenda et al., 1990).

The past literature carried out in Pakistan on how behavioral factors or personality traits affect the degree of financial Stress that an individual undergoes using Ordered Probit and Tobit model, revealed that positive relationship between self-condemnation and financial stress. This means an individual blaming his lack of skills and education for the circumstances he is in leading to an overall rise in the individual's financial stress (Akhter & Zaman, 2015). Additionally, Tobit model expressed personality traits have a direct linkage with occurrence of financial Stress. The proportion of debt increases to a specific level of income, thus naturally, there are will be less funds to finance the increased debt, eventually leading to an increased level of financial stress. Further, when individual debt to income ratio increases, the likelihood of the individual being financially stressed increases. In addition, financial stress rises due to the individuals' income level not being sufficient to finance the debt that they were holding. Decrease in the economic position tends to reduce a household's financial income, as income level is the main source of financial resources to cater to individuals and form divisions among the different classes. Terms of bank borrowing should be less favorable in order for Financial Stress to increase.

Household's expenditure increases for a fixed amount of income that causes the overall affordability to be uncontrollable, the individual, once again, has to experience high levels of stress and savings where, in a sense that there is a negative relationship with financial stress, as savings increases, the financial stress of an individual sharply reduces. In addition, as age dependency rises, financial stress is most likely to rise due to additional expenses. Individual self-condemnation and indebtedness have a positive significant relationship with Financial Stress (Akhter & Zaman, 2015). Financial stress and seeking financial help possess a negative correlation (Molle et al., 1996). The individuals in the agriculture industry experience financial stress generated from the combination of three factors: inadequate profitability, excessive debt, or high interest rates of each factor (Molle et al., 1996). Financial stress can be defined in several different ways. It generally is associated with net income (profitability), net worth (solvency), and working capital (liquidity) conditions. Financial stress occurs when profitability, solvency, or liquidity are low enough to seriously impair the ability of an entity to meet its future financial needs (Lins et al., 1987). Different studies have identified that financial stress originated from low earnings and high interest rates (Featherstone et al., 1988). The smaller cooperatives are more likely to face profitability problems whereas large cooperatives are more likely to face debt and interest rate problems.

The stressed cooperatives had a lower rate of return on assets, a higher leverage ratio and a higher average borrowing cost than the non-stressed cooperatives. The mean leverage ratio was not substantially different between stressed and non-stressed firms. The smallest cooperatives are more often facing a return-on-assets problem. The distribution of stress for the medium-sized cooperatives is not substantially different from all cooperatives. Cooperatives that possess a greater percentage of their earnings from grain marketing are more likely to be stressed than other cooperatives, although the results by product mix are much less dramatic than actual firm size. Further, profitability would provide additional information pertaining to financial stress resulting from a return-on-assets problem.

Conclusion and Recommendations to Overcome Financial Stress

According to the systematic review of the existing literature, financial stress is a global phenomenon and is the result of positive& negative life experiences of Small and Medium Entrepreneurs. The financial stress of an Entrepreneur directly causes depression, anxiety and negatively influences health, self-esteem, marriage satisfaction, parenting, and family functioning roles. Further, literature expressed that financially stressed small and medium entrepreneurs have the tendency to issue cheques with insufficient funds in the bank, regret marketing purchases, make minimum payments, more likely to pay interest, less likely to save regularly (Hayhoe et al., 2000),wrong feeling that they are doing an effective job of managing finances, inability to enjoy a holiday, inability to partake in meals with family and friends, and inability to engage in hobbies or other leisure activities. The financial stress of Small and Medium Entrepreneurs in developing countries is at a worse position than the situation of developed countries. The study carried out by (Kim et al. 2006) indicated, entrepreneurs who obtain financial advice from professionals, may follow a hierarchical pattern in their financial behaviors, paying off debts and adjusting spending behavior before considering saving. Additional financial behavior and a high score for self-evaluation of financial behavior, along with several demographic and perception variables, tend to decrease financial stress and increase financial satisfaction among Entrepreneurs.

Financially stressed small and medium entrepreneurs were more likely to quarrel and break up. Children of such financially stressed parents become victims of mental health problems, depression, loneliness, more emotionally sensitive, poor academic performers and especially girls are less sociable and more distrustful, more likely to feel excluded by their peers while boys are likely to exhibit low self-esteem and show behavioral problems in school. In addition, past studies evidenced that financial stress is double in the small and medium entrepreneurs who are smokers. Financial stress may indirectly associate with depression, prevent, or limit depression, which will reduce or eliminate the effects of stress on families. Further financial stress is associated with employment status, age, debt load as a percentage of income, retirement security, family relationship, number of financial behaviors, and self-evaluation of financial behaviors. Higher number of financial behaviors and higher score of self-evaluation of financial behaviors are associated with a lower stress level.

Financial stress is less among those who are employed, older, maintain a lower debt load as a percentage of income, and possess better health and family relationships.

Recommendations

To overcome the above constraints it is necessary to develop problem solving and financial management skills of Small and Medium Entrepreneurs, develop effective handling of economic hardships, improved positive financial behavior, and budgets. Additionally flexible repayment plans of borrowing greatly reduce the mental health burden of indebtedness and financial stress (Field et al., 2012). Small and Medium Entrepreneurs may require assistance in learning how to develop these skills and Governments of each Country and Entrepreneur Development Authorities have major tasks to provide assistance to harness these skills. Past studies suggest to include financial education programs in primary and secondary school curriculums (Granville et al., 2009) to deliver financial literacy feeding during different stages of life and providing tailor-made training programs to enhance the financial capability of Small and Medium Entrepreneurs which will directly impact &reduce financial stress (Jones, 2006). In addition, literature recommends training as the best method to develop the financial capability of individuals. Practically different approaches need to cater for the different segments in the society. Further, past studies recommend obtaining financial advice from professionals, which helps to reduce the level of financial stress of Entrepreneurs. The Weisman expressed, credit counseling and debt management programs helps to reduce financial stress and improve workplace performance and reduce unscheduled absence from work (Weisman, 2002).

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