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THE IMPACT OF BUSINESS CLIMATE ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN CAMEROON

L'IMPACT DU CLIMAT DES AFFAIRES SUR LA PERFORMANCE FINANCIERE DES PETITES ET MOYENNES ENTREPRISES CAMEROUNAISES

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Abstract

This article had as objective to assess the impacts of business climate on the financial performance of small and medium size enterprises in Cameroon. Specifically, it had to assess the impacts of general infrastructure, access to financial credit as well as the modes of financial regulation on the financial performance of small and medium size enterprises in Cameroon. To attain this objective, we used of primary data collected directly from the field thanks to open questionnaires that were administered to both top and middle class managers of the small and medium size enterprises. A simple model developed by Gikonya (2011) was employed in the analysis of the collected information. In this model elements of business climate make up the independent variable and financial performance as the dependent variable. The Ordinary Least Square method (OLS) was used to test the relationship between the variables. The result obtain showed that there exist a positive relationship between business climate and the financial performance of small and medium size enterprises in Cameroon. This result suggest that small and medium size enterprises should constantly monitor the business climate and its constantly evolving components especially the development of general infrastructures and accessibility to credit facilities but should also consider other important factors such as modes of financial regulation, asset utilization, market part as well as life cycle of the enterprise as important determinants of the level of financial performance.

Key words: Business climate, financial performance, small and medium size enterprises, financial profitability, turnover

Résumé

Cette étude vise à vérifier l'impact du climat des affaires sur la performance financière des petites et moyennes entreprises au Cameroun. Plus précisément, il devait évaluer les impacts de l'infrastructure générale, l'accès au crédit financier ainsi que les modes de réglementation financière sur la performance financière des petites et moyennes entreprises Camerounaises. Pour atteindre cet objectif, nous nous sommes engagés dans l'utilisation de données primaires collectées directement sur le terrain grâce à des questionnaires ouverts administrés aux cadres supérieurs et moyens des PMEs. Un modèle simple développé par Gikonya (2011) a été utilisé dans l'analyse des informations collectées. Dans ce modèle, les éléments du climat d'affaires constituent les variables indépendantes et la performance financière est la variable dépendante. La méthode des moindres carrés ordinaires (OLS) a été utilisée pour tester la relation entre les variables. Le résultat obtenu a montré qu'il existe une relation positive entre le climat des affaires et la performance financière des petites et moyennes entreprises Camerounaise. Ce résultat suggère que les petites et

moyennes entreprises devraient constamment surveiller le climat des affaires et ses composantes en constante évolution, en particulier le développement des infrastructures générales et l'accès aux crédit mais devraient également prendre en compte d'autres facteurs importants comme la part de marché ainsi que le cycle de vie de l'entreprise en tant que déterminants importants du niveau de performance financière.

Mots clés: Climat des affaires, performance financière, petites et moyennes entreprises, rentabilité financière, chiffre d'affaires

INTRODUCTION

There is a rapidly growing recognition of the important and remarkably significant role small and medium enterprises play in economic development in every country. These small and medium size enterprises have the capacity to achieve rapid economic growth while generating a considerable extent of employment opportunities (Reddy, 1991). Studies indicate that in both advanced economies and developing countries small and medium size enterprises (SMEs) contribute on an average 60 percent of total formal employment in the manufacturing sector (Ayyagari et al, 2007). On the empirical platform, research has proven that within the past decades ,there has been a magnificent increase in the role of small and medium size enterprises especially in the developing countries as to what concerns job creation in particular and economic growth in general. The small and medium size economic sector is increasingly being recognized as a prime vertical factor for economic development in both developed and developing nations. It is a major source of employment, revenue generation, innovation and technological advancement (Kotey & Menedith, 1997).

The official definition of small and medium enterprises in Cameroon is derived from law 2010/001 of April 13, 2010 on the promotion of small and medium enterprises. The law includes a set of criteria for classifying enterprises in the following categories;

- Very small enterprises that employ at most five persons and whose annual turnover net of taxes is below 15million FCFA
- Small enterprises with a permanent staff complement of between six and twenty persons and with an annual turnover net of taxes between 15 and 100 million FCFA
- Medium enterprises that employ at least 21 persons and not more than 100 persons with an annual turn over net of taxes between 100million and 1billion FCFA

The performance of each enterprise determines economic development of the geographical location of the enterprise in question in particular and the economy at large at the general level. However there is very little systematic research in this area backing the various policies in support of small enterprises, primarily because of the insufficiency in the necessary data to concretize facts especially on the financial structure of these SMEs given that managers tend to limit the spread of technical and financial information on the real exploitation situation of their enterprises for both competitive and fiscal reasons. SMEs are important for raising the economic efficiency of a country. They are breeding grounds for entrepreneurship, innovation and invention hence a reservoir for employment, sustainable jobs, creates income which in turn reduces the level of property. For African economies in general and Cameroon in particular, the contribution of the SME sector to job opportunities is even more important. Taking into account the contribution of the informal sector, SMEs account for about 75% of total employment in manufacturing (Ayyagari et al, 2007). Linking this contribution to the business climate in Africa, it is worth précising that the business climate can be defined as the general environment comprising of the attitudes of the government and credit institutions towards businesses as well as their economic activities, the attitudes of the trade unions towards their employers, the current taxation regimes and even the inflation rates. In other words, the business climate is the economic environment of a given community that is relevant to the operation of a business and usually includes elements like the tax rates, attitudes of government toward business through current taxation regimes and even the inflation rates.

The small and medium size enterprise has an important role to play in developing economies not only in economic development but also in poverty alleviation and job creation. It is worth mentioning that according to several authors, the objective of the management of an enterprise is limited to the maximization of the richness of the shareholders. However, such a definition fits in a current and very common phenomenon with dominant Anglo-Saxon inspiration which is founded on the prevalence of the shareholder value of the enterprise. This presented the limit in the wide acceptance of this definition and this explains why Jensen & Meckling (1976) postulated that the management of the enterprise covers a set of organizational mechanisms which cause to delimit the capacities and to influence the decisions of the leaders, in other words which controls their discretionary space. This author specifies that this definition is centered on the determining role of the leaders. To analyze therefore the role played by the business climate on the financial health of the enterprise, we shall limit our study to small and medium size enterprises as far as the Cameroon context is concerned.

Cameroon is a developing country and thus the level of industrialization is relatively low given that most of the enterprises even visible on large scale are small and medium size enterprises that are striving to stand the rapidly changing micro and macro environment. Even though there is slight progress compared to the past, the average flows of foreign direct investment to Africa are barely 2 to 3% of global flows and the countries that even feature in this small percentage are primarily country-oriented oil producers. As reasons which have however been advanced by authors on the lack of interest in business as far as Africa in general is concerned and in Cameroon in particular, there is the environment of business that is not conducive to investment, especially because the business climate remains restrictive. For the operator economy, launch and develop companies on the continent is an obstacle given the procedures are long and fussy (GICAM report, 2007). Consequently the success of the small and medium size enterprises depend on the strategic abilities of the management board to handle technical elements of growth one of them being the business climate in both the micro and macro scale in accord with the predefined objectives. The probable emanating question is: What impacts do business climate exert on the financial performance of small and medium size enterprises in Cameroon?

To study the impact of the climate of business on the performance of companies allows to examine the strengths and obstacles that practices and government policies create on business and investment in the economy on the one hand and on the other hand, this study helps to alert governments and businesses on the opportunities and barriers that dot the business environment at national level and which condition business performance. So with reference to these factors of the business climate, this study proposes to answer the questions following: Generally speaking, in what measures the various components of business climate affect the financial performance of the business? How much governance, taxation and access to credit contribute to the improvement corporate performance? And what is the share of infrastructure in the explanation of the performance of companies? With regard to these questions, this study is meant to be a contribution to the understanding the effect of the climate of business on the financial performance of small and medium size enterprises in Cameroon.

1. BUSINESS CLIMATE ON THE FINANCIAL PERFORMANCE: THEORETICAL FRAMEWORK AND REVIEW OF LITERATURE

1.1. The contribution of researchers on the business climate and financial performance

a) Divergence of business climate and financial performance

• Business climate as the key determinant of the financial performance.

The search for factors that explain business performance has been conducted in a number of works, with some authors focusing on the gender approach, diversity of the board, human capital and for others, the role of management skills, that of ICT, social values and to a great extent the business climate. Dethier et al (2008) have shown from a recent literature review that a business-friendly environment leads to economic growth by increasing business investment and productivity. Infrastructure, finance, security, competition and regulation have a significant impact on business performance. Improving the business environment also creates new opportunities. Fries et al (2004), in a study of business environment and business performance in economies in transition: Lessons from a representative survey yielded the findings that, qualitative measures of the business environment established from of the business environment and business performance survey are rather accurate measures of the quality of this environment. Secondly, the presence of obstacles in the business environment significantly explains the increased costs of the entrepreneurial act that include corruption. Third, there is a correlation significant between companies engaged in the diversion of state services and companies affected by this excessive influence on the formulation of laws and regulations. In addition, this analysis showed that diversion of services significantly increases the investment and growth of companies engaged in this activity. However, this result is achieved at the expense of the productivity growth of other enterprises.

According to Bah et al. (2011), Africa is the poorest part of the world and has the worst business-friendly environment. The effect of access to credit, business regulation, crime, corruption and infrastructure on production and total factor productivity is enormous. These factors account for approximately 67% of the change in per capital income relative to the United States. The improvement of these dimensions of the business climate will be decisive for the development of the continent. They develop a general equilibrium model to assess the quantitative effects of the business climate including access to credit, business regulation, crime corruption and infrastructure on production and total factor productivity from a sample from 30 countries in sub-Saharan Africa. The results of his study indicated that the quantitative effect of these dimensions of the business climate is considerable. Bastos & Nasir (2004), in their work on business climate and productivity in the Republic of Kyrgyzstan, Moldova, Poland, Tajikistan and Uzbekistan, found that the business environment variables, namely rent predation, infrastructure and competition influence business performance.

Beck et al. (2005), in a quest to determine if the size of the enterprise have an impact on the perceptions of financial, legal and corruption constraints, they carried out research on the conduct of business and to better concretize their analysis, they used 54 databases of global business environment surveys. Their results indicated the perception of financial obstacles and the level of corruption on the business depends on the size of the business. Small businesses perceive more constraints in doing business than larger ones. However, small enterprises reported that the legal framework is a minor barrier in contrast to larger firms, but these differences are not significant. Each factor of business climate namely finance, law and corruption has a negative and significant impact on the growth of enterprises.

Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of a business (Wole, 2009). Wole further states that securing capital for business start-up or business operation is one of the major obstacles every entrepreneur faces particularly those in the SMEs sector. Within the SMEs sectors lack of access to credit is one of the major factors accountable for hindering the emergence and growth of their businesses. Banerjee & Duflo (2004) studied detailed loan information on 253 small and medium size borrowers from a bank in India both before and after they became newly eligible for the program. Specifically the size definition of the program was changed in 1998 which enabled anew group of medium-size firms to obtain loans at subsidized interest rates. Naturally these firms began to borrow under this favored program, but instead of simply substituting subsidized credit for more costly finance, they expanded their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

- **Other factors that influence the financial performance**

As the extensive body of literature confirms the link between organizational factors and financial performance, a creation of a unified model, together with validation of particular relationships of the model is required. Taking into consideration the fact that the measuring the financial performance of enterprises is rather challenging, and coupled with the fact that there is no consensus among scholars and business practitioners on the metrics to be used in tracking the efficiency and effectiveness of individuals towards the objectives of the enterprise. In this study, return on assets and return on equity are relied upon to assess financial performance with the link to organizational factors. Furthermore, links between organizational factors like

liquidity, asset utilization, leverage, market share position, firm size and financial performance of firms are conceptualized as seen in the following analysis.

- **Liquidity and financial performance**

The current ratio is the common measure of liquidity. Liquidity is an important factor for the company in the capability of meeting the debt obligations by using the available cash and current assets that can be quickly turned into cash. The current ratio is measured by the current assets to current liabilities, which is recommended to be two is to one (2:1). The ratio of 2:1 shows the ability of the company to convert its assets into cash that can form part of the working capital. This working capital is a critical means towards attaining financial performance for the company. The ability of the company to convert assets into cash is equivalent to its ability to manage the working capital which has to be kept to normal levels to avoid the company in becoming insolvent. The liquid assets are useful for the company in times when external streams of finance to the company are not accessible, or the cost of using external finance is more than resorting to liquid assets to finance its operational expenses and investments. Liargovas & Skandalis (2008) are in support of holding higher liquidity as it served a contingency plan in dealing with the future uncertainties and kept as reserves that can be used in times of low earnings to settle short-term obligations for the enterprise.

A comparative assessment of companies can be attained by using the different current assets and current liabilities towards financial performance (Louderback et al, 2000). The study carried out by Binti (2010) showed the relationship that is negatively significant between liquid assets and the financial performance of the enterprise. An empirical examination conducted by Eljely (2004) in Saudi Arabia using current ratio found the significant but negative relationship between liquidity and the financial performance of the enterprise measured by profitability on a sample of 29 service companies made him to conclude that there is a significant negative relationship between liquidity and financial performance of the entity

- **Leverage and financial performance**

Leverage is an important ratio measured by total liabilities to total assets, which the company makes use of debt in financing assets for the business pursuit of achieving favorable financial performance. Equity holders treat leverage as an alternative for claiming residual to boost their financial performance (Rajan & Zingales, 1995). The study by Aquino (2010) covered firms that are listed and unlisted on the stock exchange concluded by showing a positive relationship between the company's high debt ratio and its growth rate and profitability. Research conducted by Joshua (2005) on financial leverage revealed a positive return on equity through utilization of the ratio of total debt to total assets. An empirical study on the impact of financial leverage

on the company's investment decisions done by Aivaziana et al (2005), found a negative correlation, in which Ahna et al (2006) add that the negative correlations between financial leverage and investment decisions are much strategic considering that they occur in less important sectors of the economy than when they occur in core strategic sectors. According to Yahie (2000) investment decisions have been found by scholars to be affected negatively by the patterns of financial leverage, and there is the indication of motivated to not invest in capital assets when the total debts to total assets are higher in enterprise. From these analyses, we can therefore agree that there is a significant negative relationship between leverage and financial performance.

- **Asset utilization and financial performance**

Asset utilization as an organizational factor to determine the financial performance of the enterprise is based on the clarification of assets that are crucial to the production or service processes necessary to drive the financial performance (Belanova, 2016). The consideration of asset utilization is significant towards identifying and measuring the capability and different functions of these assets owned by the enterprise in ensuring the attainment of financial returns (Ellis, 1998). When assets are not effectively and efficiently utilized it leads to poor financial performance such as losses in the accumulation of revenue from investments. According to Fleming, Heaney & McCosker (2005), agency costs are highly to increase when assets are inefficiently and ineffectively utilized which is an indication of management not promoting the interests of the business owners. A study done by Okwo (2012) on fixed assets investment and its relation to the profitability of the company indicates a positive relationship between the two variables. While Xu et al (2013), based their own research on testing the significance of achieving business performance from the optimal allocation of the assets structure and the statistical testing showed a significant correlation. Moreover, studies conducted by other various researchers have confirmed and affirmed the significant effect of efficient and effective utilization of assets on the financial performance of a company (Wu et al, 2010; Jose et al, 2010; and Seema et al, 2011). Based on the review above, the conclusion that the effective utilization of the assets can contribute to the financial development of the enterprise can be drawn.

- **Enterprise size and financial performance**

The literature in the field proposes different results regarding the influence of so-called "size effect." The research conducted by Pervan (2012) identified a negative relationship between the size of the enterprise and financial profitability. It is stated that due to the presence of high market power, firms can charge higher prices for their products and services in the market. Moreover, high profitability of the firm can be the result of the economies of scale of good

negotiating power of the enterprise with the suppliers. Moreover, numerous scholars studied the link between the size of the enterprise and the financial returns arising from it, for example, an empirical study conducted by Vijayakumar &Tamizhselvan (2010) significantly proved that there is a positive link between the size of the enterprise and financial performance. The study focused on the profitability aspect of the financial performance and found that big business enterprises have resources and capability to make a profit for the long term compared to the capabilities of small enterprises that are more of short to medium term in effectuating profitability.

The quantitative results and analysis study conducted on 3035 Greek manufacturing business firms by Papadognas (2007) revealed that the size classes of business enterprises were positively and somewhat proportionally linked to the enterprise's profitability. Lee (2009) also examined the sources of enterprise's profitability and the analysis revealed that one of the strategic sources of profitability was the size of the business enterprise, which positively influenced and plays an important role in opening streams of cash inflows and performance in general. Most of the above studies were conducted in the manufacturing industries; however, there are similarities between manufacturing enterprise and that in the service industry. A study conducted in the service industry tested size-profit linkage by Amato & Burson (2007) found that any firm regardless of the size it can attain profitability. Thus, the postulation from the detailed analysis of these researchers is that enterprises that have a large market share are believed to have higher profitability compared to those with small sized enterprises

- **Market share position**

The resource-based view (RBV) stipulates that differences in performance of enterprises are owing to the resource ownership. The resource-based view of the enterprise is not considered only as the pure theoretical structure, but also significant in formulating the long-term strategy of the enterprise. The main focus of the resource based view focuses on using and relying on efficient usage of the resources to establish the competitive advantage of the company (Isanzu, 2015). However, such resources should be valuable, rare, and not easy to imitate, and substitute. To validate the above view the following scholars have studied and tested it in various industries and found such link is positive. For example, Anderson (1988) validated in his study that the efficiency of the business enterprise in overall, be it gaining a large market share was highly dependent on its resources. Business enterprises gain market share position higher than their rivalries when their resource or products are superior to that of competitors in the hearts and minds of customers. Superior products of an organization significantly impact competitive advantage in a positive manner, which translates into financial performance (profitability).

Sales performance which is the prerequisite to attaining financial performance is directly influenced by market share position (Robbins, 1994). Furthermore, Robbins (1994) adds that there is a linkage between the value of the whole organization and the market share position of the organization.

A study conducted by Mc Taggart, Kontes & Mankins (1994) reveals that the favorable financial returns in various forms amount into an organizational value which depends on two factors, that is market share positioning and having the competitive advantage over its rivalries to gain higher returns along with economies of scale. The above argument is in line with that of Porter (1998) in competitive advantage, in which he argues that having the cost advantage and product differentiation built an organization's market share position that consequently leads to sustained financial performance. In support of this view, Grundy (2002) posits that financial performance can be sustained and improved by increasing the market share position, whereby an organization's objective is to be the leader in the market which should be characterized by the potential of increasing shareholder value in the process. The proposition which can be derived is that the higher share of market position is positively related to the high profitability of the enterprise.

Summarily, the above factors and their influence on financial performance can be summarized in the following diagram

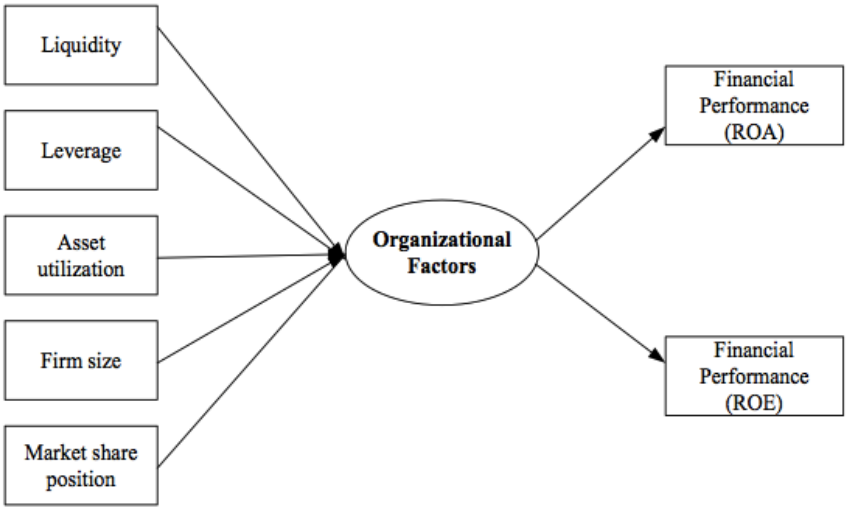

Figure 1: The impacts of organizational factors on financial performance

Source; author's conception

1.2. Key variables of the business climate

The concept of business climate has become very common in economic debates with a good number of variables that determine the success or failure of enterprises. Some of these key variables that constitute the business climate include the level of general infrastructure, the access to credit and the mode of financial regulation as analyzed in the following paragraphs.

a. General infrastructure

The level of general infrastructure is in constant change due to pertinent changes in technology and development of economies (Calderon & Servén, 2010). By definition, the term infrastructure designates the fundamental facilities characterized by technical structures such as roads, bridges, tunnels, water supply and electrical grids just to name a few. Historically, this term has a French origin way back as early as 1875 where it was used to designate the installations that form the basis for any functioning system but however this concept was officially recognized in English by 1887 as the physical components of interrelated systems that promote or facilitate the provision of commodities and services which enhance societal living conditions. Common sense suggests that modern economies cannot function without infrastructure, which provides a variety of critical services in determining any economy's production and consumption possibilities. Even if infrastructure is necessary for modern economies to function, however, more infrastructures may not necessarily cause more growth. Infrastructure services are mostly provided through networks, a fact that implies a nonlinear relation with output. Telecommunications and electricity transmission exhibit strong network effects. Roads, rail, and water or even sanitation also constitute part of network services, so the impact of new investments on growth, output, or enterprise costs will depend on the overall state and extent of the network Romp & Haan (2005). With increasing returns, the marginal productivity of investments will rise with the scale and "spread" of the network and thus will exceed the average productivity of investment until the market is saturated. A few authors have explicitly modeled the nonlinearity of infrastructure's impact on output, growth, or production costs. Röller & Waverman (2001) postulated that the impact of telecommunications infrastructure on output is substantially higher in countries where penetration approaches universal coverage. In the case of roads in the United States, Fernald & John (1999) found out that returns to investments were very high up to the point when the basic interstate network was completed. He argues that the completion of that network provided a one-time boost in U.S. productivity. This is consistent with Hurlin & Christophe (2006), who concluded that returns to infrastructure exhibit threshold effects and that the highest marginal productivity of investments is found when a network is sufficiently developed, but not completely achieved. The binding constraints may lie elsewhere than simply in the total quantity of infrastructure investment.

The effect of infrastructure may also vary as changes in the economy influence the enterprise's ability to take advantage of it. Infrastructure can affect growth through many channels Agénor & Moreno-Dodson (2006). In addition to the conventional productivity effect,

infrastructure is likely to affect the costs of investment adjustment, the durability of private capital, and both demand for and supply of goods and services. Many of these channels have been tested empirically. This is reflected in the wide variety of findings in the abundant empirical literature on infrastructure and productivity. Indeed exhaustive reviews of the literature (Briceño-Garmendia et al. 2004; Gramlich & Edward 1994; Romp & De Haan 2005; Straub & Vellutini 2006) show that, while some authors find negative or zero returns, others find a high impact of infrastructure on productivity. A careful analysis of the literature shows broad agreement with the idea that infrastructure generally matters a lot in productivity, although some studies suggest its impact seems higher at lower levels of income (Romp & de Haan 2005; Briceño-Garmendia et al. 2004). Nevertheless, there remains tremendous variety in the findings, particularly as to the magnitude of the effect, with studies reporting widely varying returns and elasticity. The variety of findings is, in fact, not surprising. There is no reason to expect the effect of infrastructure to be constant (or systematically positive), either over time or across regions or countries.

b. Access to credit

The expression access to credit refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. According to Beck and Honohan (2008), those who involuntarily have limited or no access to financial services are referred to as unbanked or under banked enterprises. This was further explained by the World Bank report (2008) which shows clearly that access to credit is the absence of price and non-price barriers in the use of financial services. The limited access to credit has been attributed to factors such as lack of collateral, high risk profile of SMEs, an oligopolistic banking sector and bias by commercial banks against the SMEs (Gallardo et al, 2003). Bank in most African countries have made little effort to reach SMEs due to difficulties in administering loans particularly screening and monitoring small scale borrowers, high cost of managing loans and high risk of default Yahie (2000). SMEs are generally undercapitalized, accounting for major operational difficulties in accessing credit and pursuing corporate goals.

Moreover, an empirical investigation shows that manufacturing enterprises in most African countries including Cameroon, which have limited access to credit and also tend to be less productive leading to the inability to move to points of better exploitation practices. This indicates that since the SMEs sector does not have adequate access to credit, their potential role in transforming the country is unlikely to be realized. Conclusively, as to what concretely concerns access to credit, Research studies reveal that age, capital, size, information access,

risk and financial records are key factors influencing credit access by firms. Others include; interest rates, borrower's education level and past financial statistics. These factors can be categorized into three namely; entrepreneur characteristics, firm characteristics and financial characteristics according to the World Bank report (2007). The concept of access to credit as well as the modes of financial regulation is still seriously pecking the Cameroon business climate as analyzed in the following paragraph

Despite the fact that access to credit improves economic activities most SME are financially excluded from the financial prerogatives of banks due to the lending terms and conditions by commercial banks and other formal institutions, this acts as a major obstacle to investment. The practice of financial rationing by financial institutions with the use of interest rates to limit lending has hindered most SMEs from accessing credit given that only high income and large scale investors who expect higher returns from exploitation can bear the high cost of borrowing as stipulated by Stiglitz & Weiss (1981). According to Sacerdoti (2005), among the reasons for limited access to credits from banks in Sub- Saharan Africa are the inability of borrowers to provide accurate information on their financial status, absence of reliable and updated enterprises with outstanding collateral securities, but other reasons include, long physical distance to the nearest financial services provider, high cost of the credit, socio-economic and demographic characteristics that make them less creditworthy. Inadequate access to credit is indicated as a key problem for SMEs worldwide. In some cases, even where credit is available, the entrepreneur may have difficulties because the lending conditions may require collateral for the loan. Credit constraints operate in variety of ways in Cameroon where undeveloped capital markets force entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises force them to rely on high cost short term finance.

c. Financial regulations

For the Cameroonian SMEs, the formal banking system is too expensive and inconvenient. Unfortunately, banks consider the SMEs with no transaction history as too risky because their ability to repay loans is not yet known or is doubtful. These unbanked SMEs may also not have collateral to access formal credit. Another issue is that these unbanked SMEs might not have the skills to run the business professionally. They may not have proper bookkeeping procedures, inventory systems, business plans or income statements making it hard for a bank to evaluate them according Frempong (2007). The practice of credit rationing by financial institutions using interest rates has locked out most poor individuals as only large scale borrowers who expect higher returns can bear the high cost of borrowing Stiglitz and

Weiss (1981). Due to the potential for adverse selection resulting from information asymmetry between lenders and borrowers, lenders are often discouraged from using the interest rate as a way to ration credit. Most rural individuals particularly rely on informal credit facility from buyers and sellers of consumer goods like shops and farmers. However, where there is no full information about the level of risk and credit worthiness of the individual, access to credit facility from both formal and informal lenders is constrained. The establishment and launch of the credit reference bureaus is expected to change the credit landscape since information on the credit worthiness is to be made available hence reducing the degree of information asymmetry. Access to finance has been identified as a dominant constraint facing SMEs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment. Their low growth and development due to difficulty in securing finance and pressures exerted on interest rates due to default rate and the need to cover transactions costs. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs access to bank loans.

In simple and clear terms, we can say that country attractiveness depends on the existence of natural resources, a large market size and a good business climate. Among these factors, only the business climate is endogenous to the policy makers (at least partially). Foreign direct investment attracted by location factors are thus explained mainly by the business climate concept but equally depends on the infrastructure, education, quality of life, stability, openness, the competition environment, as well as the tax regime. These constitute essential and intrinsic conditions to the host country. Nevertheless, it would be useful to define a method in order to estimate the business climate. This method should be at the same time alternative and complementary to existing index. It should take into account location theory.

However, it remains very imperative to clearly precise here that as to what concerns the business climate concept, there exit several variables that send us to the same notion and not only general infrastructures, access to credit and the mode of financial regulation attached to the access to credit by the commercial banks. After a careful analysis of these indicators, it was discovered that the most important variables remain the development of general infrastructures and access to credit given that the other variables are directly or indirectly linked to these to variables. It is therefore for this reason that our study shall focus more on the development of infrastructures

in general and the access to credit as the main variables of business climate in our analysis of their level of correlation with the financial performance of small and medium size enterprises in Cameroon**.**

2. METHODOLOGY OF THE RESEARCH

2.1. Sample and data collection process

In order to attain the set objectives, the population of the study comprised of widely known small and medium size enterprises in Cameroon but due to the vast landscape of the entire country coupled with the accessibility and proximity constraints, we focused on a sample of 80 randomly selected small and medium size enterprises in the city of Yaoundé.

The research used two data collection approaches -structured interviews and physical and online surveys. The research sample for the interview was selected on a purposive basis, according to the judgment of the researcher as to who could provide the best information to achieve the objectives of the study. Given the large surface area of Cameroon and for simplicity reasons, the research sample was made up a set of small and medium size enterprises selected from both commercial and industrial enterprises found in the city of Yaoundé due to proximity. An open questionnaire was developed and administered to the selected sample to facilitate data collection. The first part of the questionnaire will be focused on the biographic and demographic information of the respondents. The second and third parts will constitute elements that will enable us capture the business climate, while the fourth part will enable us measure the financial performance of SMEs in terms of financial returns. The questionnaires was developed using the standard guide line for questionnaires designed by Sekaran & Bougie (2003).

2.2. The variables of the study: definition and presentation of the model

a) Definition and measurement of variables

The nature of variables used in our study is both qualitative and quantitative variables. Albu et al (2003) describes a qualitative research as a source of well grouped rich description and explanation processes in an identifiable local context. These variables were regrouped into two parts; the dependent, explained or endogenous variables on one hand and then independent, explicative or exogenous variables on the other hand.

- **Dependent variables**

The dependent variable of this study is financial performance which can be defined as the profitability exploited from the assets of the enterprise. As such the performance will therefore

be measured in terms of profitability. We shall make use of the return on assets (ROA) and returns on equity (ROE) to capture and better analyze financial performance.

- **Independent variables**

The independent variables of our study are development of general infrastructures and access to credit. Summarily the variables can be presented in simple terms as follows

- Variable to explain: financial performance
- Explanatory symbols: infrastructure($INFRAS_{1i}$) and access to credit ($CREDIT_{2i}$)

b) Presentation of the analysis model.

$PERFORMANCE_i = f(INFRAS_{1i}, CREDIT_{2i})$ and the equation will be in the form

$$PERFORMANCE_i = \beta_0 + \beta_1 INFRAS_{1i} + \beta_2 CREDIT_{2i} + \varepsilon_i$$

Where

- $PERFORMANCE_i$ = the explained variable ("the financial performance of Cameroonian small and medium-sized enterprises").
- $INFRAS_{1i}$ = the explicative variable ("infrastructural development in general")
- $CREDIT_{2i}$ = the explicative variable ("access to all types of credit by SMEs")

Here we will have β_0 which designates the constant term and

- β_1 = the regression coefficient of the variable $INFRAS_{1i}$
- β_2 = the regression coefficient of the variable $CREDIT_{2i}$
- And finally ε_i = the residual value or the error term with
- i = index of the individual (i = 1 ... n)

3. PRESENTATION OF RESULTS AND INTERPRETATION

3.1. Criteria for interpretation of the definitive model.

a) Evaluation of the relevance of the model.

Concerning the overall assessment of the model;

- If (prob>F) <0.05 then this means that globally the statistical relation between the independent variables and the dependent variable is said to be significant

➢ If (prob⌋> F)> 0.05then this means that, globally the statistical relation between the independent variables and the dependent variable is said to be insignificant

As to what concerns the evaluation of the pertinence or the usefulness of the model;

✓ If Pi-value noted P<0.05 the statistical relation between the independent variable and the dependent variable is said to be significant

✓ If Pi-value denoted P>0.05, the statistical relation between the independent variable and the dependent variable is said to be insignificant

Regarding the evaluation of the quality of the adjustment of the data to the regression model, it is important to recall that this evaluation is done from the value of R^2 otherwise called the adjusted R in the STATA table and known in econometric language as the coefficient of determination. In simple terms, the R^2 explains the percentage of the relationship between the independent variable and the dependent variable and in this explanation two cases can be envisaged.

- If R^2 >0.75 then we say that the link (relationship) between the dependent variable and the independent variable is strong
- If R^2 <0.75 then the link (relationship) between the dependent variable and the independent variable is said to be low

Looking at the variable used in the regression model precisely β; if β<0 then the linear regression is said to be negative but if β>0 the linear regression is positive

b) Evaluation of the quality of the adjustment of the data to the regression model.

Measuring or operationalizing a variable consists in defining the indicators or measurement items and choosing different modalities of an attribute in the studied reality. The person effectuating the measurement here corresponds to the allocation of scales that make it possible to evaluate the indicator. This is to say, presenting in a simple way the use of data collected in the field in our research and its scale of measurement. For all scales, you can find the measurement level. There are four main types of scales which are: nominal; ordinal, range and ratio. The level of measurement of qualitative data is a nominal or ordinal scale whereas as to what concerns the quantitative data on its part, we have a level of interval or ratio measurement.

The nominal scale includes a number of modalities and the characteristics which are considered to cover all the possible answers (for example: sex, nationality, type of diploma, etc.). If numbers are associated with the answer modes of the scale, they have no meaning. Since our

case is quantitative and a descriptive statistical treatment is employed, we shall make use of the frequency and the mode as seen in the following table.

Table 1: Usage of data collected from the field during the research.

N°	Name of the variable	manipulation in our research	software measurement scale
1	Financial performance (turn over, financial profitability) of small and medium size enterprises in Cameroon	Coded variable at the level of the questionnaire in order to exploit information for statistical analysis	nominal
2	The development of general infrastructures	Coded variable at the level of the questionnaire in order to exploit information for statistical analysis	nominal
3	The access to all types of credit	Coded variable at the level of the questionnaire in order to exploit information for statistical analysis	nominal

Source: author's conception

The possible emanating question is to know why amongst the numerous and different methods to be used as the estimation techniques, only the ordinary least square was chosen? The answer to this question is very simple. We used Ordinary Least Squares (OLS) instead of panel data or the Probit, Logit or Tobit model because the OLS method is used on qualitative variables when incorporating these qualitative variables as an explanatory variable (independent); thus in a linear regression model where the dependent variable (or phenomenon being studied) is not dichotomous, even if the (independent) explicative variables are dichotomous then the least squares method is easily used without ambiguities. Hence the use of the multiple linear models in our research is because our dependent variable is not dichotomous. It is simply measured by quantitative indicators such as the turnover and the financial profitability.

3.2. Result of the multi-varied analysis and interpretation.

It is worth important to recall that the aim of the research was only to analyze the relationship between the business climate and the financial performance of Cameroonian small and medium

size enterprises. To realize that objective, focus was only on the elements of the business climate so the control variables were not taken into account. As such, the results of the model taking into account only the elements of the business climate essentially general infrastructure and access to financial credit are summarized in the following table.

Table 2: Coefficients of the model

```
. regress FINANCIAL_PERFORMANCE ACCES_BASIC_INFRASTRUCTURE ACCES_BANK_CREDIT, vce(robust)

Linear regression                               Number of obs =      60
                                                F(  2,    57) =    4.38
                                                Prob > F      =  0.0170
                                                R-squared     =  0.1136
                                                Root MSE      =  .48189

------------------------------------------------------------------------------
                             |               Robust
FINANCIAL_PERFORMANCE        |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----------------------------+------------------------------------------------------------------
ACCES_BASIC_INFRASTRUCTURE   |   .2174383   .0783566     2.77   0.007      .060532    .3743446
        ACCES_BANK_CREDIT    |  -.1643243   .0609147    -2.70   0.009    -.2863039   -.0423448
                   _cons     |   1.983204   .2154963     9.20   0.000      1.55168    2.414728
------------------------------------------------------------------------------
```

Source: STATA.12 Software Release

Looking at the availability of infrastructure in general, the linear regression is said to be positive between the availability of general infrastructure and the financial performance (turnover, financial profitability) of small and medium-sized Cameroonian enterprises because the relative coefficient to this variable is positive (+0.2174383) and significant (Pr> | t | = 0.007 <0.05) for the degree of significance level of 5%. In practical terms, this means that the availability of general infrastructure has a positive and significant influence on the financial performance (turnover, financial profitability) of Cameroonian small and medium-sized enterprises. This confirms our first research hypothesis, according to which, infrastructural development in general has a significant influence on the financial performance of small and medium-sized Cameroonian enterprises.

On a purely economic and management level, this simply reflects that the availability of infrastructure in general is more important to explain the financial performance (turnover,

financial profitability) of small and medium-sizedenterprises in the Cameroonian context hence the positive sign as testified by its parameter (+ 0.2174383).

On the other hand, looking at the access to all types of credit by SMEs, the linear regression is said to be negative between access to all types of credit by SMEs and the financial performance (turnover, financial profitability) of small and medium-sized enterprises in Cameroon because the coefficient obtained relative to this variable is negative (- 0,1643243) and significant (Pr> | t | = 0,009 <0,05) for a threshold of significance at 5%. In practice, this means that access to all types of credit by SMEs has a negative and significant influence on the financial performance (turnover, financial profitability) of Cameroon's small and medium-sized enterprises. This confirms our second research hypothesis, that access to credit essential to the business climate has a significant impact on the financial profitability of small and medium-sized Cameroonian enterprises.

On a purely economic and management level, this simply reflects the fact that access to all types of credit by SMEs is less used or less important to explain the financial performance (turnover, financial profitability) of small and medium-sized enterprises in the Cameroonian context as concluded by its parameter (- 0,1643243).

Table 3: Summary of results

	Hypotheses	Results
HG	The business climate has a significant influence on the financial performance of SMEs in Cameroon	confirmed
H1	The development of general infrastructures have a significant influence on the financial performance of SMEs in Cameroon	confirmed
H2	Access to credit as an indispensable element of the business climate have a significant influence on the financial performance of SMEs in Cameroon	confirmed

Source: author of the research

CONCLUSION

The main objective of this article was to assess the impacts of business climate on the financial performance of small and medium size enterprises in Cameroon. We therefore had to work on the assumptions (hypotheses) that general infrastructure and access to financial credit have a significant influence on the financial performance of Cameroonian small and medium size enterprises. A significant relationship was identified between the business climate and the financial performance of Cameroonian small and medium size enterprise.This implies that a slide increase or a decrease on these elements as components of the business climate could induce a high increase or decrease on the financial performance of SMEs in Cameroon respectively. These results were in line with the similar results postulated by Ngotta Celaine & Becho Isabele who carried out a research on the business climate and financial performance of Ivorian enterprises in 2012.

In a general manner, the SMEs are not supported or encouraged by the state. The state should boast that sector given that it remains one of the most bases for development. This can be done to a reduction in the amounts paid by enterprises in the sector, or the granting of subsidies here need be. The administration should equally inform the enterprises of this sector on the actions about to be taken to avoid surprising and embarrassing the SMEs given that it remains one of the discouraging factors. Moreover, the government should guarantee credit from the banks and microfinances because one can be tempted to say that in Cameroon credit is instead easily accorded to the rich.

The financial performance is the basic or fundamental concept in the enterprise that is to be analyzed with caution. Despite the fact that the basic elements of the business climate may not be up to standard, it remains vital to carefully analyze and fully exploit the available facilities so as to help boast the turnover.

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