

**EXPLORING THE RELATIONSHIP BETWEEN SMEs FINANCING AND ENTREPRENEURS' PERCEPTIONS ON THE DEVELOPMENT OF THE HOSPITALITY INDUSTRY IN SYLHET**Md. Sajadul Islam Sarker <sup>(a)1</sup> Md. Asraful Islam Chowdhury <sup>(b)</sup><sup>(a)</sup> Assistant Professor (Finance), Dept. of Tourism and Hospitality Management, Leading University, Sylhet, Bangladesh; E-mail: [sajadul.comilla@gmail.com](mailto:sajadul.comilla@gmail.com)<sup>(b)</sup> Assistant Professor (Management), Dept. of Tourism and Hospitality Management, Leading University, Sylhet, Bangladesh; E-mail: [asrafulchowdhury@lus.ac.bd](mailto:asrafulchowdhury@lus.ac.bd)

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## ABSTRACT

By serving and gratifying clients, the hospitality business has a significant potential to stimulate economic growth and to increase shareholder wealth. The study's primary goal is to examine how SME financing has affected Bangladesh's growing hotel sector. Growth in services and jobs are important SMHE development determinants. The theoretical model displays how the researcher has conceptualized the relationships between the study's variables. We employed factor analysis, test of hypothesis, and descriptive analysis to conduct quantitative analysis for this paper using SPSS. In this work, both primary and secondary data have been utilized. Primary data collection will be done in the Sylhet districts (Sadar) utilizing standardized questionnaires that will concentrate on the borrower's perspective of SME funding. Secondary data was gathered from academic journals, theoretical evaluations of SME foundations, papers, Bangladesh Bank magazine reviews, and BBS reports. A survey will be undertaken to obtain feedback from the owners or managers of various hotels, restaurants, and managed food services in the districts of Sylhet (Sadar). The study found a strong correlation between organizational behavior measures and SME finance. This study also poses the possibility that the Sylhet region's hotel sector could improve its performance through smart SME financing. The study also suggested potential future uses of SME finance in hospitality firms in the Sylhet region. The framework includes the impact of SME financing on revenue, job growth, and their 'customers.

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## INTRODUCTION

The hospitality sector has a lot of potential to increase GDP and economic growth. The government currently has a full plate. In fact, the government now bears enormous responsibility for facilitating and regulating the sector's expansion in accordance with a planned trajectory. All commercial sectors in Bangladesh are expanding significantly, including the hotel sector, as the country's economy expands. As a result, a variety of commercial activities—such as hotels, restaurants, and business organizations—are expanding. These businesses must establish their own reputation and brand in the eyes of the public and their clients. Therefore, the hospitality industry is vital to Bangladesh's economic growth. However, obtaining funding remains one of the biggest obstacles to the expansion of the hotel industry, particularly for creative small businesses. With an economy increasing by over 7% and Bangladesh expected to join the middle-income group by 2021, the hospitality sector in Bangladesh has enormous potential. According to Hasan and Hossain (2014), the significance of SMHEs in Bangladesh's private sectors has made financing of small and medium hospitality firms (SMEs) a topic of major interest for academics. The service sector includes the hospitality sector. By serving and gratifying clients, the sector has the chance to increase shareholder wealth. A range of corporate entities, including hotels, restaurants, managed food services, etc., are included in the industry. A business is considered to be in the small hospitality industry (SMHI) if it employs 10 to 25 people and/or has fixed assets worth at least Tk. 5 million, excluding land and building value. Businesses classified as Medium Hospitality Industry (SMHI) have at least Tk. 10 million in fixed assets, excluding land and building value, and between 50 and 100 employees (Industrial policy-2010). According to statistics, the total amount of loans disbursed throughout the five-

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year period from 2011 to 2018 climbed consistently by over 60.96%. However, the overall growth in the service sector is simultaneously close to 28%. It does highlight the huge increase in funding for the services sector, as well as the potential for financing in the future for the hospitality sector (SME foundation). According to Mazumder and Hasan (2014), the financing issue in small and medium-sized hospitality companies (SMHE) has received a lot more attention recently because it has the potential to be crucial to the expansion of the service sector. The issue should now be investigated: what effect does SME finance have on the SMHE development indicators? Increases in employment, sales, variety of services, and customer satisfaction are these firms' key development metrics (SMHE). According to Ahmed and Chowdhury (2009), SMEs financing is more important for the growth of the SME sector, which promotes rapid industrialization, economic success, and the creation of jobs, the reduction of poverty, and the maintenance of the standard of living. According to Beck and Kunt (2006), the SME sector is currently viewed as a nation's economic engine where banks offer these financing options and SME financing is investigated as an upcoming area of investment in the banking sector. In the less developed and middle-income economies, SME provides the necessary building blocks for persistent growth and rising revenue. According to Beck et al. (2008), SME funding is the means through which small and medium-sized businesses are financially supported. This market is where money for various sorts of businesses are abundant, acquired, and costed or priced. The business finance market is awash in money, whether it be in the form of bank loans and overdrafts, leasing and hire-purchase contracts, equity/corporate bond issuance, venture capital, or asset-based finance like factoring and invoice discounting.

The main objective of this research proposal is to explore the relationship between SME financing and the development of the hospitality industry in Sylhet.

Specific objectives are as follows:

- To examine the association between size of employee and SME loan in hospitality enterprises
- To observe the association between business tenure and SME loan in hospitality enterprises
- To look at the relationship between ownerships type and SME loan in hospitality enterprises
- To investigate the relationship between firm performance and SME loan of hospitality enterprises.
- To examine the association between employment growth and SME loan in hospitality enterprises.
- Exploring the future potential uses of SME financing in hospitality enterprises in Sylhet region.

The main research question- Is there any relationship between SME financing and entrepreneurs' perceptions on the development of hospitality industry in Sylhet?

## LITERATURE REVIEW

Beck et al. (2011) due to the importance of SMEs in the global private sector, as well as their perception that these barriers to financing and the cost of credit are greater than those faced by large companies, as well as the fact that lending location is more crucial in determining bank financing to SMEs than large companies, the financing of small and medium hospitality enterprises (SMHEs) has attracted the attention of both policy-makers and researchers. According to Alauddin and Mustafa (2015), the financing of small and medium-sized hospitality businesses has attracted a lot of attention recently and has been crucial for economists and policymakers working on financial and economic growth. According to Alam and Ullah (2006), infrastructure is dependent on a company's financial health, and SME financing indicates the creditworthiness of small and medium-sized enterprises. According to Chowdhury (2007), SME's were only marginally affected by contemporary finance, including banks and securities. In many developing nations, SME finance has a significant impact on the development of a private governance system for establishing long-term business ties and expanding global business networks. According to Ragu et al. (2015), who studied the analysis of business performance in small and medium-sized hospitality enterprises in the Republic of Croatia, access to finance is a crucial component that makes it easier for businesses to expand and enter new markets, which is crucial for the process of economic development. SME play a significant role in creating jobs, however they may not be able to adequately contribute to economic growth because they have more financial difficulties than larger businesses. According to Uddin (2008), the small and medium-sized enterprise (SME) sector has very little access to financing from institutional sources, and SME investment is exclusively focused on Dhaka, yet investment is needed to expand in rural areas. In a study on the mercantile bank limited, Akterujjaman (2010) examined the issues and future prospects of managing SME loans and came to the conclusion that banks should implement more generous credit policies and broader capital funds to mobilize capital financing to the country's foundations for bolstering the production and distribution system that drives economic growth. According to Bhattacharya and Chowdhury (2003), the public private partnership model is a novel but ineffective field level for creating SMHEs in Bangladesh. They believe that public-private partnerships have less control over how policies are made and implemented. Bosri (2016) examined the SME financing practices in Bangladesh: Scenario and Challenges and discovered that if financial institutions and non-bank organizations offer credit facilities with low interest rates, economic growth, poverty reduction, and quick industrialization can be attained. If a financial institution or non-bank organization offers funding options with few procedures, SME development is achievable. Becks (2007) investigated the difficulties SMEs in developing nations have in obtaining financing. The lending environment is more significant in influencing bank funding for SME than firm size or capital, according to evidence, determinants, and solutions. In addition to seeing access to credit and credit costs as bigger impediments than large companies do, SMEs also find that these characteristics make it harder for them to obtain financing. According to Torre et al. (2010), access to external financing is a major barrier to firm growth. Another issue with SME financing is that these businesses find it difficult to ensure that they will be able to repay loans on time. Additionally, without a properly functioning financial system and market, small and medium-sized businesses are unable to raise money on time and cannot develop properly. The hospitality industry brings in money for the government and employs recent graduates. The city's hotel sector

is expanding at a rate of 5–6% yearly. According to Chowdhury et al. (2013), there are both banks and non-bank financial institutions that offer SME financing with less requirements, lower interest rates, customizable loan amounts, and less collateral security for the growth of the hotel and restaurant industries. According to Carvalho and Costa (2014), in the highly competitive corporate climate, access to financing is a crucial factor that promotes firm growth and expansion into new markets, making it crucial for the process of economic development. Access to financing is a critical component that makes it easier for businesses to expand and enter new markets in a competitive business environment. It is also crucial for the process of economic development. SME play a significant role in creating jobs, however they may not be able to adequately contribute to economic growth because they have more financial difficulties than larger businesses. According to Chenhall and Langfield-Smith (2007), performance relates to how well a financial aim is or has been achieved. It is the process of calculating the monetary value of the outcomes of a firm's policies and operations. It can be used to compare similar companies within the same industry or to compare industries, as well as to gauge a firm's overall financial health over a specified period of time. According to Ahmed and Chowdhury's 2009 analysis of the performance evaluation of SMEs in Bangladesh, financial performance is a subjective indicator of how effectively a company can use its resources to achieve its core objectives and create income. Profitability can be used to contrast similar businesses and gauges both the overall financial situation and the capacity to meet obligations. According to Singh et al. (2007) research, low levels of customer satisfaction are caused by an unsatisfactory correlation between customer expectations and feelings. Customer satisfaction is also influenced by a number of other factors, including assurance, responsiveness, dependability, empathy, and tangibles. According to Kariru and Aloo (2014), in order to match consumer expectations for service quality, hotel rooms in Kenya's western tourist circuit must be enhanced. As a result, adequate funding is required to upgrade the infrastructure of hotels and restaurants. A trade company, whether it be a restaurant or another business, is constantly considering its service because it is the key to success. In the present era, business is expanding daily and involves two sides, namely buyers and sellers, with consumers constantly concerned with product quality and sellers with pricing.

## MATERIALS AND METHODS

### Research Hypothesis

In this study, the hypotheses have been selected based on the literature review mentioned above to describe the relationship among those variables that influence SME financing on the development of the hospitality industry in Bangladesh.

- H<sub>1</sub>: Is there any association between size of employee and SME loan in business firms
- H<sub>2</sub>: Is there any association between business tenure and SME loan in business firms
- H<sub>3</sub>: Is there any association between ownerships type and SME loan in business firms
- H<sub>4</sub>: Is there any association between SME loan and entrepreneur perceptions on potential impact of SME loan on financial performance.
- H<sub>5</sub>: Is there any association between SME loan and entrepreneur perceptions on potential impact of SME loan on employment growth.

### Variable Specification

The researcher's idea of how the study's variables interact is represented by the variable framework. Previous research provided evidence for the importance of the link between SME financing and organizational growth. This study also poses the possibility that the Sylhet region's hotel sector could improve its performance through smart SME financing. The framework incorporates the effects of SME financing on hospitality industry profitability, employment growth, customer happiness, and service expansion.

Table 1. Conceptual Framework

SME financing and entrepreneurs' different perceptions on the development of hospitality industry	<b>Firm Performance</b>	<ol style="list-style-type: none"> <li>1. Level of production</li> <li>2. Operational performance</li> <li>3. Import of modernized technology</li> <li>4. Launching new division</li> <li>5. Buying any new machinery</li> <li>6. Introducing new product</li> <li>7. Adopting new business strategies</li> </ol>
	<b>Employment growth</b>	<ol style="list-style-type: none"> <li>1. Create occupational and health safety</li> <li>2. Acquire environmental friendly technologies for employees</li> <li>3. Keep a workplace cool and free from hot situation</li> <li>4. Create new employment opportunities (Through new investment)</li> <li>5. Ensure equal employment opportunities</li> <li>6. Improve working environment</li> </ol>
Future potential uses of SME financing		<ol style="list-style-type: none"> <li>1. Business expansion</li> <li>2. Establishment of new business line</li> <li>3. New product development</li> <li>4. Reaching new market</li> <li>5. Working capital</li> <li>6. Fulfillment existing commitment</li> <li>7. Research and development</li> </ol>

- **Study Population and Sampling**  
Owners and Managers associated with different hotels, restaurants, in sylhet districts (sadar). One hundred twenty (120) sample sizes have been collected from study population using non-probability sampling techniques (Purposive sampling).
- **Sources of Data**  
Primary data have been collected from sylhet districts (sadar) area through structured questionnaires focusing on the perception of entrepreneurs regarding SME loan.  
Secondary data have been collected from theoretical reviews like SME foundations, different articles, Bangladesh Bank periodicals review, BBS report and academic journals.
- **Data Analysis Techniques and Tools**  
Data were analyzed through SPSS 25 under some specific hypotheses. Descriptive statistics has been used to describe the respondent profiles and Statistical tools like Chi-square test has been used to show the relationship between different indicators of hospitality sectors and SME loan. Besides, factor analysis also used to identify the possible future potential uses of SME loan.

## RESULTS AND DISCUSSIONS

### Respondent's Demographic

The questionnaires were distributed to the manager; owners of the business firm and their response are graphically represented here.

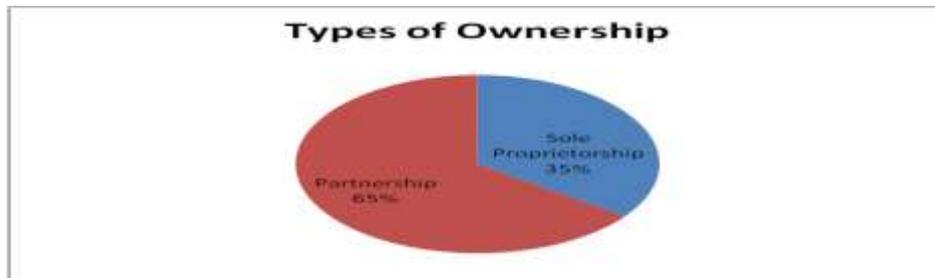


Figure 1. Ownership Pattern

The figure 1 represents 65% owners of hospitality industry in sylhet sadar area were partnership and rest of 35% of owners was sole proprietorship.

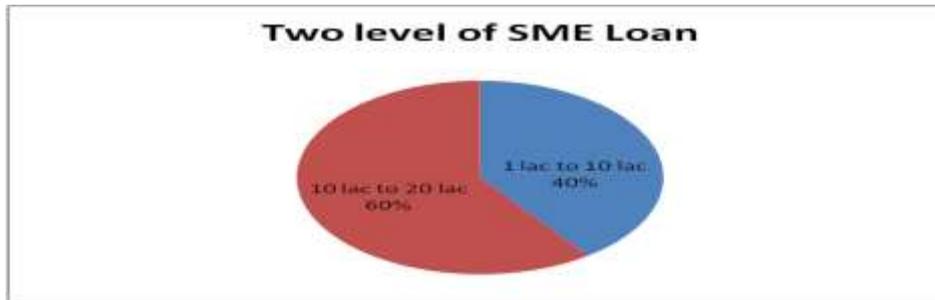


Figure 2. Ownership Pattern

The pie figure 2 represents 60% of owners received loan in the range of 10 lac to 20 lac and 40% of owners received loan in the range of 1 lac to 10 lac respectively

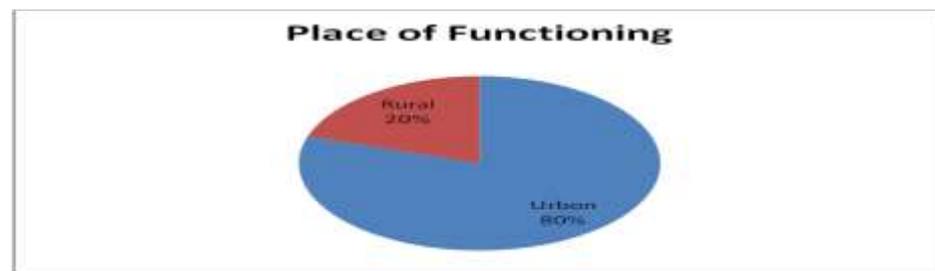


Figure 3. Place of functioning

The figure 3 represents most of the hospitality enterprises are operated in urban area.



Figure 4. Firm's owner

The figure 4 showed that 90% hospitality enterprises are operated by male owner and only 10% firms are operated female owner



Figure 5. Experience of Business Firm

The Figure 5 showed that a 73% hospitality enterprise only has experience on 1 year to 5 years and 27% firms have experience on five years.

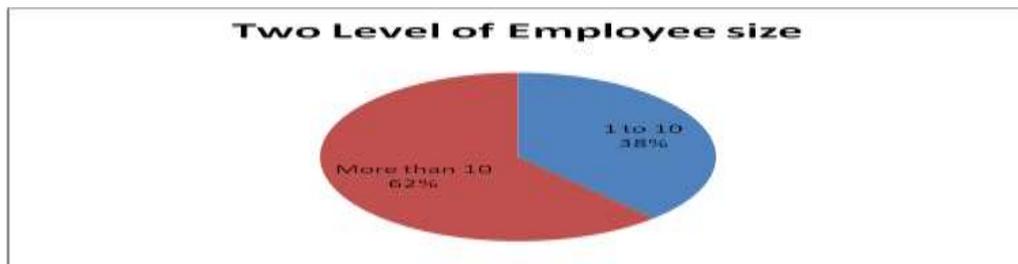


Figure 6. Number of employee

The figure 6 represents that a 62% hospitality enterprise has number of employee was more than 10 and 38% hospitality enterprises number of employee number of employee has 1 to 10.

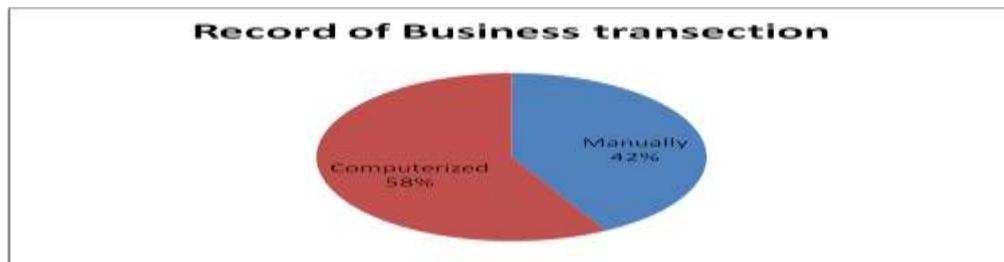


Figure 7. Record of business transaction

The figure 7 represents the respondents opined 42% restaurants record their transaction manually and computerized records rest of the 58% restaurants.

**Statistical Analysis**

Hypothesis 1. Is there any association between size of employee and SME loan in business firms

Table 2. Two levels of employee's size by two levels of SME loan (Cross tabulation)

Two levels of employee size		Two levels of SME loan		Total
		1 lakh to 10 lakh	10 lakh to 20 lakh	
1 to 10	Count	25	13	38
	Expected Count	15.2	22.8	38.0

More than 10	Count	15	47	62
	Expected Count	24.8	37.2	62.0
Total	Count	40	60	100

Details	Value	df	P-Value
Pearson Chi-Square	16.985	1	.000
Phi	.412		.000
N of Valid Cases	100		

**Result:** A chi-square test for with  $\alpha=0.01$  was used to assess whether the employee size of firms was related to the size of SME loan. The chi-square test was highly statistical significant  $\chi^2(1, N = 100) = 16.985, p = .000 < 0.01$  with Phi coefficient of 0.412, indicating a strong relationship. As seen in Table-04, the firms with large employee size (more than ten employees) were more likely to take large amount of SME loan than the firms with small employee size.

Hypothesis 2. Is there any association between business tenure and SME loan in business firms?

Table 3. Two levels of business tenure by two levels of SME loan (Cross tabulation)

Two levels of business tenure		Two levels of SME loan		Total
		1 lac to 10 lac	10 lac to 20 lac	
1 to 5 years	Count	35	38	73
	Expected Count	29.2	43.8	73.0
More than 5 years	Count	5	22	27
	Expected Count	10.8	16.2	27.0
Total	Count	40	60	100

Details	Value	df	P-Value
Pearson Chi-Square	7.111	1	.008
Phi	.267		.008
N of Valid Cases	100		

**Result:** A chi-square test for independence with  $\alpha=0.01$  was used to assess whether the business tenure or experience of firms was related to the size of SME loan. The chi-square test was statistically significant,  $\chi^2(1, N = 100) = 7.111, p = 0.008 < 0.01$  with Phi coefficient of 0.267, indicating a moderate relationship. As seen in Table-03, the firms with long business tenure or experience were more likely to take large amount of SME loan than the firms with small business tenure or experience.

Hypothesis 3. Is there any association between ownerships type and SME loan in business firms?

Table 4. Types of ownership by two levels of SME loan (Cross tabulation)

Types of ownership		Two levels of SME loan		Total
		1 lakh to 10 lakh	10 lakh to 20 lakh	
Sole Proprietorship	Count	21	14	35
	Expected Count	14.0	21.0	35.0
Partnership	Count	19	46	65
	Expected Count	26.0	39.0	65.0
<b>Total</b>	<b>Count</b>	40	60	100

Details	Value	df	P-Value
Pearson Chi-Square	8.974	1	.003
Phi	.300		.003
N of Valid Cases	100		

**Result:** A chi-square test for independence with  $\alpha=0.01$  was used to assess whether the ownership type of firms was related to the size of SME loan. The chi-square test was highly statistical significant  $\chi^2(1, N = 100) = 8.974, p = .003 < 0.01$  with Phi coefficient of 0.30, indicating a strong relationship. As seen in Table-05, the partnership firms were more likely to take large amount (more than 10 lakh) of SME loan than the sole-proprietorship firms.

**Hypothesis 4.** Is there any association between SME loan and entrepreneur perceptions on potential impact of SME loan on financial performance?

Table 5. Two levels of SME loan by two levels impact on Financial Performance (FP) (Cross tabulation)

Two levels of SME loan		Two levels impact on FP		Total
		Low impact on FP	High impact on FP	
1 lac to 10 lac	Count	25	15	40
	Expected Count	20.8	19.2	40.0

10 lac to 20 lac	Count	27	<b>33</b>	60
	Expected Count	31.2	28.8	60.0
Total	Count	52	48	100

Details	Value	df	P-Value
Pearson Chi-Square	<b>2.945</b>	1	<b>.086</b>
Phi	<b>.172</b>		<b>.086</b>
N of Valid Cases	100		

**Result:** A chi-square test for independence with  $\alpha=0.05$  was used to assess whether the size of SME loan was related to the perception of business entrepreneurs about the impact on financial performance. The chi-square test was not statistically significant  $\chi^2(1, N = 100) = 2.945, p = .086 > 0.05$  with Phi coefficient of 0.172 indicating a weak relationship which is also not significant. As seen in Table-01, the firm owners using large size of SME loan were likely to show same perception toward the impact of SME loan on financial performance as the firm owners who were using small size of SME loan. It means that there was no significant difference between two SME loan groups (small and large) regarding perceptions about the impact of SME loan on financial performance.

**Hypothesis 5.** Is there any association between SME loan and entrepreneur perceptions on potential impact of SME loan on employment growth?

Table 6. Two levels of SME loan by two levels impact on Employment Growth (EG) (Cross tabulation)

Two levels of SME loan		Two levels impact on EG		Total
		Low impact on EG	High impact on EG	
1 lakh to 10 lakh	Count	21	19	40
	Expected Count	15.2	24.8	40.0
10 lakh to 20 lakh	Count	17	43	60
	Expected Count	22.8	37.2	60.0
Total	Count	38	62	100

Details	Value	df	P-Value
Pearson Chi-Square	5.949	1	.015
Phi	.244		.015
N of Valid Cases	100		

**Result:** A chi-square test for independence with  $\alpha=0.05$  was used to assess whether the size of SME loan was related to the perception of business entrepreneurs about impact on Employment Growth. The chi-square test was statistically significant  $\chi^2(1, N = 100) = 5.949, p = .015 < 0.05$  with Phi coefficient of 0.244 indicating a moderate relationship which is also significant. As seen in Table 2, the firm owners using large size of SME loan were more likely to show positive perception toward the impact of SME loan on Employment Growth than the firm owners who were using small size of SME loan.

Table 7. The Summary of Hypotheses Results

Hypotheses	P Value	Results
<b>H<sub>1</sub>:</b> There is no association between size of employee and SME loan in business firms	<b>0.000</b>	<b>Rejected</b>
<b>H<sub>2</sub>:</b> There is no association between business tenure and SME loan in business firms	<b>0.008</b>	<b>Rejected</b>
<b>H<sub>3</sub>:</b> There is no association between ownerships type and SME loan in business firms	<b>0.003</b>	<b>Rejected</b>
<b>H<sub>4</sub>:</b> There is no association between SME loan and entrepreneur perceptions on potential impact of SME loan on firm performance.	<b>0.086</b>	<b>Accepted</b>
<b>H<sub>5</sub>:</b> There is no association between SME loan and entrepreneur perceptions on potential impact of SME loan on employment growth.	<b>0.015</b>	<b>Rejected</b>

**Factor analysis of future potential uses of SME financing**

In this study, descriptive statistics indicated a number of reasons which are responsible for the development of hospitality industry in Bangladesh. The analysis used principal component method to extract the factors with varimax rotation technique. Table 04 shows the results of the factor analysis of future potential uses of SME financing in hospitality enterprises. A particular variable has been selected to include as a factor on the basis of high factor loading value. These factors are:

Factor	1	2	3	4
Business expansion		0.697		
Establishment of new business line	0.535			
New product development				0.791
Reaching new market			0.514	
Working capital		0.522		
Fulfillment existing commitment			0.667	
Research and development	0.679			
Eigen Value	1.638	1.245	1.125	0.980
Percent of Variation	23.405	17.786	16.078	14.000

Cumulative percent of variation	23.405	41.191	57.269	71.269
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (Kmo)=0.540				

The analysis used principal component method to extract the factors with varimax rotation technique. Table 4 shows the results of the factor analysis of future potential uses of SME financing in hospitality enterprises through SME financing and. A particular variable has been selected to include as a factor on the basis of high factor loading value. The study determined four main factors and these factors are:

**Factor I:** Establishment of new business line, Research and development

**Factor-II:** Business expansion, Working capital

**Factor-III:** Reaching new market, Fulfillment existing commitment

**Factor-IV:** New product development

The respective magnitudes of factor loadings depict the significance of a particular element in a factor and these elements are arranged in order of their magnitudes respectively. The above four factors can be named as establishment of new business line, research and development, business expansion, working capital, reaching new market, Fulfillment existing commitment, new product development.

## CONCLUSIONS

SME financing has been crucial to Bangladesh's economic expansion and development. The growth of Bangladesh's hospitality business has been greatly influenced by the financing of small and medium-sized hospitality firms (SMHEs). The financing of small and medium-sized hospitality businesses has seen a lot of focus in recent years, and it has played a crucial role in the growth of entrepreneurs and in the smooth operation of their businesses, which ensures the financial and economic growth of such industries. As an entrepreneur can establish a business in infrastructure, SME financing symbolizes the creditworthiness of small and medium enterprises. According to the report, businesses with a large staff base were more likely to take out substantial SME loans in order to expand. Additionally, larger amounts of SME loans can be used for greater performance by companies with more market expertise than by companies with less experience. Furthermore, compared to sole proprietorship businesses, partnership businesses are better suited for SME finance because they can borrow larger sums (more than 10 lakh). Compared to business owners who used small SME loans, the company can guarantee employment growth while using large SME loans. Our analysis also found that there is no connection between SME funding and the Bangladeshi hotel sector's profitability. The level of production, operational performance, the introduction of new products, the import of modernized technology, the launch of new divisions, the adoption of new business strategies, the purchase of any new machinery, etc. have all seen a minor improvement thanks to SME finance. According to the study's findings, there is a strong correlation between SME finance and increased employment in the hotel sector. It means that SME financing has significantly influenced the employment growth indicators listed below, including the creation of occupational and health safety, acquisition of environmentally friendly technologies for staff, maintenance of a cool and comfortable workplace, enhancement of the working environment, and the creation of new job opportunities. Additionally, there is a strong correlation between SME funding and the number of employees, length of operation, and ownership type of hospitality businesses in the Sylhet Sadar region.

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