Characteristics of manager's and SMEs performance: the role of access to finance as a moderator

Raed Khamis Alharbi 1 *, Sofri Bin Yahya 2, Essia Ries Ahmed 2

1 Taif University, College of Administration and Financial sciences
2 Universiti Sains Malaysia, Graduate School of Business
*Corresponding author E-mail: Raedalharbi99@gmail.com

Abstract

Previous studies that examined the effect of characteristics of managers on the performance mainly concentrated large companies. The review of the small and medium enterprises (SMEs) literature reveals limited research has attempted to investigate the moderating effect of access to finance in SMEs, particularly in the developing countries. This study general reviews the moderating effect of access to finance on the relationship between characteristics of manager's related to age, education, experience and training and financial performance of SMEs in the developing countries. Findings of the study indicate the performance of SME vary with the choice of the characteristics of managers. Additionally, this study found that there is theoretical evidence showing the moderating effect of access to finance on relationships between characteristics and financial performance.

Keywords: SMEs Performance; Access to Finance; Characteristics of Manager.

1. Introduction

One of the most common raising trends to achieving mixed sources of revenue to grow the economy is small and medium scale enterprises (SMEs) because it has been recognized as a major contributor to economic activity and has received increased global attention due to its growing importance in terms of income generation, labor absorption, poverty alleviation and contribution to GDP [1], [2]. It is reported that over the past few decades, SMEs have been recognized as a major contributor to economic activity [3], [4]. The Federation of Small Business (FSB), a business organization in the United Kingdom (UK) records that, as at the start of 2012, the SMEs sector accounts for almost 99.9% of all private sector firms in UK, 59.1% of private sector employment and 48.8% of private sector turnover [5]. This is to show how significant is SMEs to national economic growth. SMEs is sources of revenue to grow the economy and it has been recognized as a major contributor to economic activity and has received increased global attention due to its growing importance in terms of income generation, labor absorption, poverty alleviation and contribution to GDP [6]. Consequently, Albiliw, Antony, Arshed, and Ghadge [7] aver emphasize that SMEs' in developing countries need to focus on resolving the issues related to training, customers' needs, project selection, and execution, investment, calculating the financial benefits, cultural changes, and effective leadership to improve their performance. While Alsamari, Slade, Sharif, and Saleh [8] affirm lack of proper training to the SMEs projects owners and this has clear negative effects on their performance. The authors highlight access to finance, marketing, and support as some of the issues, among the most critical issues facing SMEs performance in developing countries. The Labor and Social Development Minister (Ali Bin Nasser Al Chafees) says that 40,000 SMEs were financed with SR 6 billion in 2017 [7]. The worry by many people is that the impact of this huge finance on the economy is not significant to justify the claim.

2. SMEs in national economies

Ayandibu and Houghton [9] opine that SMEs sector is the largest contributor to employment in most countries. This is relevant for job creation; hence the reason nations all over the world are interested in this sector because the sector is a major contributor to technical innovation and new product developments. Ghandi and Amissah [10] aver that SMEs are very critical to the development of any economy. The important role of SMEs in the development of the economy of any nation is even more evident when the economies of developing nations are considered. The SMEs have played very important roles in the development of many Europe countries and indeed the Asian giants [2]. The economic boom in some of these Asian countries, for example, China, which is connected to SMEs have lifted hundreds of millions of people out of poverty and created tens of millions of new middle-class consumers. SMEs are responsible for driving innovation and competition in many economies. The authors opine that in India, the SMEs account for about 39% of manufacturing output and 33% of total exports. SMEs possess great potential for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. [9] asserts that SMEs is the engine of growth, essential for a competitive and efficient market, critical for poverty reduction, and lastly, important role in developing and developed countries.
Nghe and Van-Aardt-Smit [11] report that SMEs in the USA comprise 99% of all enterprises and employed over 50% of private sector employees. This account for approximately 39% of the GDP and represents 98% of all USA exporters and 34% of USA export revenue. This is perhaps one of the reasons the American economy is strong and stable. In Germany, Savolovski and Robu [12] assert that SMEs contribute 87.7% of the GDP and 75% of employees work at SMEs. It should be noted that SMEs in Arab countries not only play significant roles in job creation of employment but also create an economic environment and supplied larger enterprises with essential raw materials.

Al-berjas [13] asserts that there are many interrelated ideas and concepts such as innovation, entrepreneurship, business incubation, training and rehabilitation when the issue of SMEs come to fore. The common notion that government procedures and conditions have been blocking enterprises is inaccurate because the relevant ministries have simplified procedures [6]. A lack of entrepreneurial awareness and readiness is a real problem facing SMEs, but this can be bypassed as the state provides lots of assistance in this respect. The success of SMEs in the Kingdom is closely related to reducing imports and manufacturing all required products locally. Moreover, we should target exports, support scientific research and invest in research and development to make progress in the sector. The role and importance of SMEs in national economies of KSA cannot be over-emphasized. Zawya [14] reports that their contribution to GDP could increase to 37% by the end of 2015 and the estimated investment in SMEs will be more than USD 70 billion by the end of 2015. Alsulami [15] asserts that SMEs employ more than 4.5 million people representing more than 80% of the total workforce, mostly foreign workers. The rate of engagement of foreign workers to the detriment of KSA citizenry is becoming an issue for concern. The government and banks are providing much needed funding to SMEs. Salem (2014) [16] asserts that the initiation of various business support programs in the KSA, for instance, aims at improving the performance of small and medium enterprises, nurturing talent and entrepreneurial skills, and provision of entrepreneurial training programs.

Over the last few years, Saudi Arabia’s Government has been on an aggressive direction of pursuing its movement toward the knowledge-based economy in the world. The government’s policies to assign various private and government institutions to guide the framework of such economic perspective is an important move in attaining the standards and benefits of economic development and growth that come with business innovation. The author asserts that institutions like the Prince Sultan Fund to Support Women's Small Enterprises, Saudi Arabian General Investment Authority (SAGIA), the Prince Salman Young Entrepreneurship Awards, the National Entrepreneurship Centre, the Prince Salman Entrepreneurship Institute, and the King Abdullah University of Science and Technology (KAUST) are among the various institutions mandated by the government to facilitate Saudi Arabia’s economic transition progress. The major questions to be asked about SMEs in Saudi Arabia are: what has been the role of the SMEs in the economic development of Saudi Arabia? Why is it that even with the high SMEs participation by private participants yet the SMEs contribution to GDP is low? The worst is the poor export contribution. Evidence has shown that SMEs in KSA have underperformed and have not made a significant contribution to the nation’s economic growth and development in terms of GDP and foreign exchange attraction from SMEs products. Hence, the need for scholars to conduct research towards this direction; this study intends to address this aim issue.

### 3. Characteristics of managers in SMEs

This sub-chapter reviewed literature that addresses manager’s characteristics on SMEs performance. Reynolds (2011) [17] avers that research in the previous literature recognized that manager’s characteristics have an influence on SMEs performance. While Alabdullah [18] study shows that ownership profile is key factors in the success of an SME. This is dated back to the study of Schumpeter (1934). The author presents an entrepreneur theory that is founded on the belief that all entrepreneurs have various traits in common which are fundamental to their performance. These traits may result in either success or failure. While Walker and Brown [20] opine that personality traits and demographic characteristics such as age, education, and experience have a significant influence on an enterprise’s success or otherwise. Likewise, habits and personal qualities of the managers of Singaporean SMEs have an impact on the profitability of their firms [21]. Arazmish and Alrashidi [6] opines that in SMEs, the owner or manager or senior management representative is responsible and authorized to make the decision to either participate or withdraw from exporting or any other international activities, hence, the need to tactically review the characteristics of SMEs manager. This is because it is obvious that the decision of the manager affects or influence the growth of SMEs performance of the enterprise. However, in the wisdom of the author, four categories were identified that could influence the performance of SMEs from the side of the manager. They are:

1. **SMEs Manager’s Personality:** Studies have shown that the perceptions of top management staff influence the decision and willingness to be involved in international markets [20].
2. **SMEs Manager’s Management Style:** It is obvious that decision in regard to SMEs is centered in the hands of one or few persons within the organization (Henderson & Nutt, 1980) [22]. Hence, SMEs manager’s attitude toward risk is very high, thus discouraging them to look beyond within. This style of leadership needs to be changed if we want to record success in SMEs.
3. **SMEs Manager’s Demographic Characteristics:** For the purpose of this study, this aspect of manager’s SMEs was adopted. 2. Harash, [2] suggests that SMEs operations are influenced directly or indirectly by the manager’s background, experience, and know-how. Successful SMEs should be an entrepreneur with technical competence, initiative, good judgment, intelligence, leadership qualities, self-confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability. Among the dimensions are:
   - Independence: Independence means bringing in new ideas and undertaking risks. It should be noted that without independent, there will be no innovation or improvement [23].
   - Self-Confidence: Self-confidence is an indicator that reveals to what extent an owner of a business believes in himself/herself and his/her ability to achieve the goals he/she set [24].
   - Ability to learn from failure: Failure is the mother of success while innovation and ventures always go with failures. Ability to learn from failure has been recognized as one of the important traits in the source of innovation and new business [23].
   - Propensity to take risk: Brockhaus [25] defined propensity to take risk as “the perceived probability of receiving rewards associated with the success of a proposed situation, which is required by an individual before the person will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as severe consequences than the proposed situation.”
4. **Achievement motivation:** It is associated with the characteristics of a SMEs owner that contribute to success because of his achievement, motivation and the characteristics of the achievement motivated persons as identified by [26].

Manager’s characteristics that seem to influence SMEs performance growth include age, education, experience [26], [27]. The most widely used features include age, level of education and training, and business experience. In the opinion of Islam, Khan, Obaidullah, and Alam [41], demographic characteristics such as age and individual background, for example, education and former work experience do have an influence on SMEs performance.
4. Literature review

4.1. Age of managers

Tanveer, Akbar, Gill, and Ahmed [28] opine that age is one of the significant demographic factors mentioned in literature in relation to the performance of SMEs. The authors report that the SMEs managed by the owner who is within 25–30 years old and above are more successful than the younger ones [29]. In line with the authors, Alabdullah [30] earlier acknowledged thinks and stated that older managers are less well positioned to utilize technology and derive innovative idea. This may hinder their chances of success because the world today is technology driven and the world has become a global village. On the contrary, Kautonen [31] opines that older business managers are likely to achieve success than younger ones because they are recognized as having better experience, finances, and networks for business expansion.

4.2. Education of managers

Within the broad category of manager characteristics, education is likely to influence SMEs performance. Hence, education is one of the components linked with the performance of SMEs. Ganyaupfu [32] report that manager with a higher education, that is, degree or post-graduate qualification seems to enhance the growth of the business, thus having an impact on both success and growth. Woldie [27] opine that managers with primary level education shows at least propensity for SMEs growth. This implies that the higher the educational background of the SMEs manager, the better chances of SMEs growth. There is no gain over-emphasizing the relevance of education because it creates entreprising individuals who are self-sufficient [33].

4.3. Experience of managers

Saleh [34] reports that there is a perceived positive link between the previous work experience of managers and SMEs performance. Mahmud and Hilmi [35] findings reveal that adequate experience of SMEs managers has a positive effect on access to finance in several countries. In this regard, previous literature has established the fact that access to finance is germane to growth in SMEs performance. This is confirmed by Sabah [36] that there is a positive relationship between experience and SMEs performance. Similarly, Isaga [37] identified the experience as a key factor having a positive relationship with SMEs performance in the Tanzanian context.

4.4. Training of managers

Suliyanto and Rahab [38], Georgiadi and Pitleis [39], report that there is a positive relationship between employees training and SMEs performance. This implies that there is a strong impact on training and productivity and profitability of the enterprise. Islam and Siengthai [40] opine that in human resource management, training and development have significant positive impacts on the success of the SMEs.

5. Linking between characteristics of manager's and SMEs performance

5.1. Linking age of managers with SMEs performance

Age of SMEs managers has been found to be one of the factors to positively impact firms’ performance. The literature provides a strong evidence of a positive relationship between education and firm performance [29], [27] reveal that middle-aged and older owner-managers (40 years +) are more likely to run enhanced SMEs growth. Hashim et al. [42] found that the older workers are competent, performing well, and are trainable. The performance of older workers was found to be positively related to their competence and trainability. Logically, old managers will bring more experience and knowledge to bear on central issues, to influence more their decisions and strategies to improve their performance and hypothesis that

H1: The age of SMEs managers is positively related to the SMEs performance.

5.2. Linking education of managers with SMEs performance

Martin, McNally, and Kay [43] reveal that it is advantageous to receive a technical business education, as individuals who have received this tend to be more intuitive and analytical. Wanigasekara and Surangi [44] elaborate that most of the researchers have found an active link between business experience, education and business success. The literature has found that there is a relationship between the manager-owners education and firm performance [45]. Gunasekaran [46] and Karadag, [47], argued that level of education manager/owner is an essential driver of SMEs’ growth and a key determinant of performance. However, in the literature, the number of empirical studies conducted to measure the education-level impact on financial management performance is insufficient, despite the general acceptance that higher levels of education are linked to higher performance [47]. Supporting this is a study by Woldie et al. [27] and Ammari [48] who examine the impact of education on firm outcomes, and thus the following hypothesis is proposed

H2: Managers’ education is positively related to the SMEs performance.

5.3 Linking experience of managers with SMEs performance

A review of the literature has suggested that knowledge, the abilities, skills of managers are critical to firm performance [35], [62], [37], [63], [64]. Top management experience is an essential factor influencing performance [36], [4]. Therefore, it is essential for firms to understand the experience of their managers. It is argued that a firm with managers with stronger experience will have better insight and competence because the managers will have deeper knowledge and skills to steer the firm, when compared to a firm with a manger with less experience [48], [49], [50]. By examining experience of the manger, the firm can better performance. This experience is expected to positively contribute to firm performance.

H3: Managers’ experience is positively related to the SMEs performance.

5.4. Linking training of managers with SMEs performance

The relationship between training and private firm performance is supported by other research works in different contexts. Some empirical studies have analyzed the relationship between training and performance. In general, their findings show that practice has a positive effect on productivity, product quality and innovation performance [52], [53], [39], [40]. According to research done by Mayuran [54] training was found to have had a substantial impact on the performance of entrepreneurs. Further researcher suggests that this will facilitate the transformation of small businesses to medium scale and hence to large businesses and enhance the success of small businesses. Training and development are found to have associated effect on firm performance that the better the status of training and development in an SME, the higher the performance of the SME confirm that training has a positive impact on SMEs performance and the following hypothesis was proposed

H4: Managers’ training is positively related to the SMEs performance.
6. Moderating role of access to finance

Several recent researchers have suggested that the relationship between the several strategic orientations, TQM practice and SMEs performance depends on the access to finance [55], [56] the opportunity for the managers of SMEs to make decisions and act are affected by the access to finance. According to Harash et al. [57], reported that in relation access to fund to SMEs performance is a particular predicament, to the extent that, small companies tend to possibly have much job growth rate at higher level, but at same time, the firms are more likely to be stunted or even to go out of business because institutional or financial constraints. Thus, the presence of access to finance will extend the financial knowledge, competence, and religiosity enabling and encouraging critical business operations and therefore creating different insights in decision making. In fact, the literature implies that a high level of access to finance can facilitate firms to access essential resources, in turn, firms are more likely to achieve growth performance. Liu, Cowling, & Zhang, [58] indicate that the access to finance significantly moderates the inter-relation between growth orientation and growth of small businesses in the UK. Demir and Caglayan [59], argued that firm performance is positively related to having access to financial resources. Also, Adomako and Danso [60] reveal that the access to financial capital positively moderates the relationship between financial literacy and firm performance of 198 entrepreneurial firms operating in Ghana. SMEs with more access to finance can contribute to high levels of knowledge, competence, training, experience and better firm performance. So, the current research suggests that the strength of the relationship between knowledge, education, competence, training, experience and SMEs performance would be heightened as access to finance increased.

Although some previous studies identified finance as pertinent in getting SMEs performance right, for example, Chen and Chen [56], Al-Yahya and Airey [61] and Kelley et al. [62], the mentioned studies failed to link finance as a moderator regarding performance. Overall, the availability of financial capital can facilitate firms to improve their performance. However, there are limited studies have been investigated the moderating role of access to financial capital on the inter-relation between manager’s characteristics on SMEs performance. Thus, the following propositions are formulated. Therefore, on these bases access to finance is expected to modify the relationship between the independent and dependent variables in this study, and it is hypothesized that:

H.5: Access to finance moderate the relationship between manager’s age and SMEs performance.


H.7: Access to finance moderate the relationship between manager’s experience and SMEs performance.

H.8: Access to finance moderate the relationship between training and SMEs performance.

7. Conclusion

This study took a structured approach to model development and was derived from a grounded and theoretical approach. Joosten (2018) avers that a model is considered grounded because it is a reflection of the research questions, the framework of inquiry, including variables, and research designs developed, while a model is considered theoretical since social and learning theories inform the development. This current study is after taken into cognizance with the literature reviewed from a prior study and several suggestions given by different authors. This study addresses a gap in the literature by providing a complete model within the context of access to finance moderating the effect of the relationship between the manager characteristics and the SMEs performance in developing countries. Thus, the study seeks to contribute to the existing literature by investigating the impact of the moderator on the independent variables and the dependent variable with a view to enhancing better contribution to GDP and exporting of local SMEs products.

References


