Access to Finance as Potential Moderator on the Relationship between Entrepreneurial Self-Efficacy and SMEs Performance in Nigeria: A Proposed Framework

Kabir Shamsudeen 1,2, Ooi Yeng Keat 2, Hazlinda Hassan 2
1 Economic Department, Shehu Shagari College of Education, Sokoto, Sokoto State, Nigeria,
2 School of Business Management, Universiti Utara Malaysia, Malaysia

Abstract: Though, the important influence of SMEs on economic growth is acknowledged, still the performance of Nigerian SMEs is below expectation. The contribution of SMEs to GDP shows a gross underperformance. In addition, SMEs high failure rate is another sign of low performance. On the other hand, poor access to finance conquers a central position for the low performance of Nigerian SMEs. The paper presents a theoretical framework on the moderating effect of access to finance on the relationship between entrepreneurial self-efficacy and SMEs performance in Nigeria. If validated, the model would have policy implications to SMEs owner/managers and other stakeholders in decision making.

Keywords: Entrepreneurial self-efficacy, access to finance, SMEs, Performance.

I. Introduction

This paper presents a theoretical framework on the influence of entrepreneurial self-efficacy on the performance of Nigerian Small and Medium Enterprise (SMEs) with the moderating role of access to finance. SMEs serve as a mechanism for job creation in many countries around the globe (Shehu & Mahmood, 2014). Largely, the sector serves as a livewire for economics survival for nations all over the world (Mahmood & Hanafi, 2013; Oduoye, Adebola, & Binuyo, 2013). Thus, the global consideration is said to be on the issues like job creation, poverty reduction, which is the significant issues encouraging the support of SMEs development among many nations (Oduoye et al., 2013). Comprehensively, a quiet number of the countries adapted the platform of SMEs to solve their socio-economic problems and improve their GDP.

Even though, SMEs played a vital role in economic development, however, the sector faced with a lot of problems as identified by (Ekpenyong & Nyong, 1992; Gbandi & Amissah, 2014; NBS & SMEDAN, 2012; Oluboba, 2002). This includes: low level of entrepreneurial skills, viable business plan, and difficulty in accessing finance, inadequate equity capital, high rate of enterprise mortality, poor infrastructural facilities, shortage of skilled manpower among others. These further identified as the factors behind the poor performance of SMEs in Nigeria, which attract the attention of both researchers and practitioners in the country (Shehu & Mahmood, 2014; SMEDAN, 2012). The performance of SMEs in Nigeria is an issue of serious concern to all stakeholders. SMEs contribution to Nigerian Gross Domestic Product (GDP) was very low compared to other countries like Ghana, Kenya and Malaysia among others. SMEs contribute with nothing less than 10% to Nigerian GDP (Bello, 2014). Therefore, the distress of SME’s financing is among the significant problem (Aminu & Shariff, 2014). Owner-mangers of SMEs are being classified with lack of access to finance, high-interest rates, double taxation and poor financial services by financial institutions (SMEDAN, 2012).

However, it has established that entrepreneurial self-efficacy (ESE) independently influences performance outcome in various studies. For instance, literature revealed that there are scarcities of studies that relate ESE and performance outcome. Even though, there is limited study, most of the available studies concentrated on individual performance and still the outcome of these studies came up with mixed result. The studies that reported positive and significant relationships include; Anna, Chandler, Jansen, and Mero (2000); Forbes (2005); Baum and Locke (2004); Trevеляyn (2011); Torres and Watson (2013); Ballout (2009); Kidd and Green (2006); Lent, Brown, and Hackett (1994) and Vancouver, Thompson, and Williams (2001). While, the study of Meece, Wigfield, and Eccles (1990); Bandura and Jourden (1991); Pajares and Miller (1994); Mueller and Dato-On (2008) and Cervone and Wood (1995) reported negative relationship between the concept of self-efficacy and performance outcome.

Therefore, this current study address this important gap by proposing access to finance as potential moderator on the relationship between ESE and SMEs performance in Nigeria. This is in line with Baron and Kenny (1986) that whenever there is inconsistency in the findings of the previous studies, moderating variable is suggested. The researchers reviewed various related literature and came up with propose framework that is predicting the relationship between ESE and SMEs performance with moderating role of access to finance.
II. Literature Review

1.1 SMEs performance

SMEs' performance is derived from the actual outcome of the enterprise measured compared to its input. Performance measurement assists business organizations to concentrate on divisions that require improvement by appraising its work progress level in terms of quality, time, and cost as well as consolidating in areas with higher output (Hansen & Wernerfelt, 1989; Tomlinson, 2011). Previously, studies measured performance using either subjective or objective approach, in other hand financial or non-financial approach (Greenley & Foxall, 1997; Ringim, 2012). According to Haber and Reichel (2005) and Gunasekaran, Putnik, Sousa, Aspinwall, and Guimarães Rodrigues (2006), objective/financial measures is the simplest way to measure performance. Financial returns and firm growth the principal performance measures (Daily, McDougall, Covin, & Dalton, 2002). Profitability, liquidity, innovation, leverage market share, productivity, human resource management, management performance and quality of goods and services are the fundamental indicators used in measuring organizational performance (Dess & Robinson, 1984). Ahmad (2005) measured performance of SMEs that involve in exporting activities by using the return on sales, return on assets, return on investment, as well as the growth. Performance is the outcome derived from efficiency and effectiveness in optimum utilization of resources and productivity (Berry, Sweeting, & Goto, 2006). Kamyabi and Devi (2011) performance defined as the measurement of firm’s financial ability which includes the level of profit, investment level with both growth in sales and profit. In the study of Hakimpoor (2014) performance was measured in subjective approach using both financial and non-financial measures.

1.2 Entrepreneurial self-efficacy and performance

The concept of Self-efficacy defined by Bandura (1997) as beliefs of individuals concerning their ability to organize cognitive resources and needed courses of actions to effectively perform a particular task in a given situation. The achievement of higher career goals determine by higher self-efficacy beliefs of an individual (Ballout, 2009). King (2004) measured self-efficacy as an individuals’ ability to exercise control on career outcomes which facilitate to display career self-management activities that lead to the attainment of career success. However, ESE refers to the individual’s belief on his/her capability to perform an entrepreneurial tasks or roles successfully (Boyd & Vozikis, 1994; C. C. Chen, Greene, & Crick, 1998; De Noble, Jung, & Ehrlich, 1999; Forbes, 2005). These includes developing market opportunities or new products, constructing an inventive environment, instigating investor relationships, defining fundamental business purpose, developing human resources that is critical in nature, managing unexpected challenges (De Noble et al., 1999). ESE is essential because it helps in building one’s entrepreneurial ability confidently in responding to any number of questions by the potential partners (Moesel & Santiago, 2008).

Nevertheless, in the area entrepreneurship, previous studies have examined the ESE-firm performance relationship, for example (Chandler & Jansen, 1997; C. C. Chen et al., 1998; Cumberland, Meek, & Germain, 2015; De Noble et al., 1999; Forbes, 2005; Hallak, Assaker, & O'Connor, 2012; Hallak, Lindsay, & Brown, 2011; Herath & Mahmood, 2014; Hmieleski & Corbett, 2008). But these aforementioned studies came up with mixed findings. For instance, studies by Baum, Lockes, and Smith (2001); Baum and Locke (2004) and Hmieleski and Corbett (2008) have identified that, ESE positively related firm’s growth. Similarly, positive relationship was also found between ESE and subjective measures of new venture performance (Anna et al., 2000; Forbes, 2005). By implication, the findings of these studies signify that, entrepreneurs with higher self-efficacy are likely to achieve high growth expectations for their firms and continuity in their management efforts toward the completion of those goals.

In contrast, Bresó, Schaufeli, and Salanova (2011) in a longitudinal design examine whether self-efficacy-base intervention increase engagement, performance and decrease burnout as well as change sense of well-being among university students. The study employ intervention programme and it constituted sixty six students, where twenty three students participated as the researcher’s intervened group and the remaining forty three filled the questionnaire as stressed and health control group. The findings of the study reported that self-efficacy, performance and engagement increase in the group intervened compare to other group. Similarly, Meece et al. (1990) and Pajares and Miller (1994) indicated that there is an independent effect on individual’s beliefs on their efficacy and their performance achievements, where their altitude of anxiety have little or no correlation to their academic performance. The findings of Judeh (2012) indicated that there was inconclusive evidence on whether self-efficacy had an influence on job performance. While some studies reported that, concept of self-efficacy negatively related with performance outcome (Bandura & Jourden, 1991; Cervone & Wood, 1995; Meece et al., 1990; Mueller & Dato-On, 2008). Entrepreneurial self-efficacy do not predict emerging venture performance (Chandler & Jansen, 1997). Therefore, in line with the above argument, this study hypothesizes that:

H$_1$: There is significant relationship between ESE and SMEs performance.
1.3 Access to finance as potential Moderator

Financial resources are vital for survival and operation of any business. SME’s performance mainly depends on the ability of firm to generate finance internally and secure external finance (Aminu & Shariff, 2014; Demir & Caglayan, 2012). Therefore, poor access to financial resources will be harmful to the prospective growth of business (Rahaman, 2011). Shortage in financial resources is one of the most contributing factors that weaken SMEs performance (Xavier, Kelley, Kew, Herrington, & Vorderwülbecke, 2013). In addition, firms with poor or no access to financial capital are constrained to execute their task and achieve firm performance (Giannetti & Ongena, 2009). Likewise, in Nigeria the main problems that are accountable for poor performance of SMEs is inadequate access to finance (SMEDAN, 2012). Hence, Finance availability has been touted as one of the constraints of SMEs (Evbuomwan, Ikpi, Okoruwa, & Akinyosoye, 2012).

Many empirical studies signify that access to finance influences SMEs performance. For instance, Akingunola (2011) reported significant positive relationship between SME’s financing and their growth. In the same vein, Mazanai and Fatoki (2012) found that access to finance directly related to SMEs performance. There is positive statistical relationship between access to financial resources and employment generation as well as the enterprise growth (Abdulsalam & Tukur, 2014; Akisimire, 2010; Atsede, Mwita, & Saidimu, 2012; Ibru, 2009; Kuzilwa, 2005). The relationship between ESE and firm performance is an indispensable unresolved subject in the field entrepreneurial opportunity. However, one prominent element that can improve SMEs abilities to increase performance and survival is the entrepreneurial ability to exploit available financial resources. For example, firms with high entrepreneurial self-efficacy have more chances to improve its performance through the exploitation of available financial opportunities (Alvarez & Busenitz, 2001; Ardichvili, Cardozo, & Ray, 2003; Ardichvili & Cardozo, 2000; Barney, 1991). Therefore, the relationship between ESE and SME’s performance will be stronger if the firm has access to financial resources. Hence, in line with the above argument, this study proposes the following hypothesis:

\[ H_2: \text{Access to finance significantly moderates the relationship between ESE and SMEs performance.} \]

III. Conceptual framework

The research framework has one independent variable that will represent firm’s valuable resources namely entrepreneurial self-efficacy. SMEs performance is the dependent variable, while access to finance is the moderating variable. Numerous studies showed that, resource-based view (RBV) theory recognized as the commonly known theory that is explaining firm performance. RBV emerge from the earlier work of Penrose in 1959, stressing that firm should be considered as bring together of different type of resources (human and physical resources) in an organizational structure. Penrose (1959) stressed the positive implication of organizational resources in improving firm competitive advantage. The RBV postulates that, the firm’s ability to utilize the available valuable tangible and intangible resources determined its competitive advantage (Barney, 1991; R. Rumelt, 1984; Wernerfelt, 1984). Consequently, numerous studies used several elements of firm’s tangible and intangible resources in examining firm performance. Barney (1991) argued that these resources need to be valuable, rare, inimitable and non-substitutable (VRIN) resources. Entrepreneurship has been acknowledged earlier as an intricate part on RBV framework (Conner, 1991; R. P. Rumelt, 1987). Most of the RBV research are focuses on intangible resources, such as entrepreneurial characteristics (Finkelstein & Hambrick, 1996; Huselid, 1995; McIvor, 2009; Penning et al., 1998).

Therefore, ESE is one of the entrepreneurial characteristics that are intangible and valuable among the organizational resources that will give a firm competitive advantage over its competitors (Alvarez & Barney, 2007). AF is also tangible and valuable resources and some studies adopted RBV to express the significance of access to financial resources on the SMEs performance (X. Chen, Zou, & Wang, 2009; Fonseka, Yang, & Tian, 2013). Thus, in line with the available literature, it can be argued that SMEs with high ESE can exploit more internal finance and external financial resources, and the relationship between ESE and SMEs performance will be stronger if the firm have access the available financial resources. These incorporated into the proposed research model (see figure 1).

![Figure 1: Propose theoretical framework](image-url)
Access to Finance as Potential Moderator on the Relationship between Entrepreneurial Self-Efficacy

IV. Conclusion

The purpose of this research is to review the relevant literature and highlight the need to consider the moderating role of access to finance on the relationship between entrepreneurial self-efficacy and SMEs performance as depicted in Figure 1. If the model is validated empirically, the finding will offer an important insight to practitioners and SMEs owner/managers into the significant role of accessing financial services in the increase in their performance. The study will also benefit the academia by introducing the moderating variable to the model which has not been considered by the previous studies. This study suggested for further studies can validate the propose framework in this study empirically.

References:


DOI: 10.9790/487X183XXXXX www-iosrjournals.org 4 | Page
Access to Finance as Potential Moderator on the Relationship between Entrepreneurial Self-Efficacy


Access to Finance as Potential Moderator on the Relationship between Entrepreneurial Self-Efficacy