

The Mediatory Role of Access to Finance Between Finance Awareness and SMEs Performance in Nigeria

Kabir Shamsudeen, O.O.I. Yeng Keat and Hazlinda Hassan
School of Business Management, Universiti Utara Malaysia, Selengor, Malaysia

Abstract: The study intends to determine the effects of access to finance on finance awareness and SMEs performance relationship in Nigeria. The study adopts quantitative survey method, the data collected from the SME's owner/managers in Sokoto metropolis of North-Western Nigeria. Total of 103 questionnaires were distributed, 74 usable questionnaires were returned. The data were analyzed using Partial Least Squares structural Equation Modeling (PLS-SEM). The result indicates that, finance awareness is statistically significant with the SMEs performance. It was also found that access to finance fully mediates the relationship between finance awareness and SMEs performance. Future research also suggested in this study.

Key words: Finance awareness, access to finance, SMEs, SME's performance, Malaysia

INTRODUCTION

Small and Medium Enterprise's (SMEs) performance is of interest to all stake holders in any country (Olutunla and Obamuyi, 2008). SMEs have a big potential to socio-economic development, by contributing significantly to GDP, income generation, employment generation competence building and poverty reduction as well as urban and rural development (Hallberg, 2000; Kamyabi and Devi, 2011; Olutunla, 2001). In Nigeria, SMEs serves as an avenue for empowerment of citizens, wealth formation and Job creation by providing almost 60% of all job opportunities (Dauda and Akingbade, 2010; Shehu and Mahmood, 2014a).

Consequently, the role played by high performing SMEs for any country is very clear (Aminu and Shariff, 2014). These attract the attention of both practitioners and researchers on SMEs all over the world. In Nigeria, the performance of SMEs is an issue of serious concern to all stakeholders where it is still faces countless constraints. The SME's contribution to Nigerian GDP is very low where it contribute with >10% to the country's GDP (Gbandi and Amissah, 2014).

These is attributed to some certain problems as identified. This includes: lower level of entrepreneurial competency, constrained access to financial resources, poor management policies, high rate of enterprise mortality, inadequate awareness on the available financial opportunities, lack of skilled manpower, poor infrastructural facilities. Nevertheless, the distress in the growth of financing SMEs is among the major problem.

SME's operators are being classified with limited access to finance, double taxation, high-interest rates and poor financial services by financial institutions.

Accumulated number of studies has delivered empirical considerations in relation to the influential factors of SMEs performance (Abdulsalam and Tukur, 2014; Aminu and Shariff, 2014, 2015; Dauda and Akingbade, 2010; Fatoki, 2012; Shariff and Peou, 2008; Shehu and Mahmood, 2014b). Literature revealed that, there is no empirical study or very limited study that link finance awareness and SMEs performance using the mediating variable of access to finance. This will serves as major gap in the literature. To address this important gap, this study expands the existing literature by empirically examining the relationship between finance awareness and SMEs performance with mediating role of access to finance.

Literature review

SMEs performance: Organizational performance measured by number of criteria's as growth, productivity, effectiveness and efficiency and it is considered to be the outcome of management process (Man, 2009). Effectiveness measured in terms of operational, behavioral and financial measures respectively. The operational measures comprise "productivity, resource acquisition and efficiency and employee reaction on workflow as well as work support in organizations". Behavioral effective measures are made up of "adaptability, satisfaction and good communication can be used to assess individual performance". Financial measures include "profitability and growth which in turn can be used in assessing the

financial performance of an organization". Mandy further added that, the process of determining the organizational performance needs a careful selection of a set of essential variables that enable an organization to identify and monitor its competitive position in the business environment. Shariff *et al.* (2010) affirmed that performance measures using objective (financial) assessment on sales growth, return on assets and return on equity.

Firm performance is the firm's ability to produce satisfactory outcome and actions. Then, firm performance is an indispensable issue that needs tolerable business planning and dedication (Davood and Morteza, 2012). Therefore, in line with the above discussion, SMEs performance measured in this study using both financial and non-financial measures.

Finance awareness and SMEs performance: Concept of awareness viewed as a perception of a given phase of one's performance, situations, conveyed perfectly (Clare *et al.*, 2011). Awareness defined as the "state of acknowledging the existing of something and it's important". In opportunity recognition process, awareness serves as the major component which viewed as opportunity awareness in the study of Ardichvili *et al.* (2003), stated that, business opportunities in prospective enterprises generally identified by entrepreneurs to generate and deliver value for stakeholders.

Opportunities are made not found. Hence, there is a need for essential awareness. Johnson measured awareness as an individual knowledge toward available opportunities. Empirically, studies were conducted in different context/disciplines and by different researchers to assess the concept of awareness. For example were conducted by Thong and coauthors assessing the level of awareness on microfinance programme among the micro-entrepreneurs in Malaysia.

The funds that, promotional activities, educational level and marketing are positively related with the level of entrepreneurial awareness while, monthly income, age, gender and social culture has negative relationship with level of entrepreneurial awareness. Singh and Belwal (2008) found that, many potential beneficiaries (entrepreneurs) are excluded from microfinance scheme due to inadequate awareness.

However, Osman and Subhani (2010) indicated that, there is no significant relationship between brand awareness and brand/consumer loyalty. Ajemunigbohun *et al.* (2014) found that, awareness creation is not encouraged among the Nigerian insurance companies and

it is not significantly reflect among the life of many insuring populace. Therefore, in line with the above, the following hypothesis proposed by this study:

- H₁: Finance awareness positively related to SME performance

Access to finance as mediator: Financial resources are very vital factor to survival and operation of any business organization. The performance of SMEs depends mostly on firm's ability to generate financial resources (internal finance and secure external finance) (Demir and Caglayan, 2012; Wiklund and Shepherd, 2005). Consequently, poor access to financial resources will be harmful to the future growth of any business enterprise (Rahaman, 2011). Inadequate financial resources is one among the factors contributing in weakening SME's performance.

According to Giannetti and Ongena (2009) enterprises with no or poor access to financial capitals are constrained to achieve their objectives that leads to high performance. Likewise, in Nigeria access to finance is among the major problems that are accountable for the poor SME's performance. Thus, when SMEs has limited access to financial resources, their contribution to economic growth will be very small. Financial structures and policies of the country toward SMEs determined its access to financial resources (Berger and Udell, 2006).

It was discovered by several studies that, access to finance positively influence SMEs performance. For example, Akingunola (2011) reported that, SMEs financing positively related with their growth. Also, Mazanai and Fatoki (2012) opined that access to finance has direct relationship with the SME's performance. Similarly, firm performance depends on the firm access to finance, market and information (Fatoki, 2012). In the field of finance the relationship between firm financing and firm performance is an indispensable unresolved issue (Aminu and Shariff, 2014).

Access to finance is an entrepreneurial opportunity that require high entrepreneurial awareness to discover and exploit which in turn leads to an increased in performance (Ardichvili *et al.*, 2003; Ardichvili and Cardozo, 2000; Mot, 2011). Therefore, this link proves the mediating ability of access to finance on the relationship between finance awareness and SMEs performance. In line with the above, this study came up with the following hypothesis:

- H₂: Access to finance mediates the relationship between finance awareness and SMEs performance

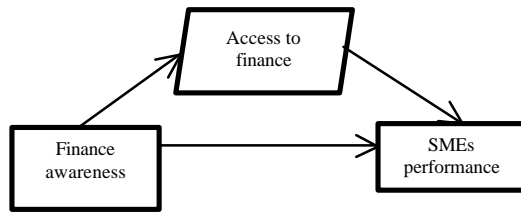


Fig. 1: Research framework

MATERIALS AND METHODS

This study adopted quantitative research approach. Where structured survey questionnaire were used to collect data from the SMEs' operators in Sokoto metropolis of North-Western Nigeria. Eight questions measuring SMEs performance was adapted from the scale of Suliyanto and Rahab (2012) and Vorhies and Morgan (2003), nine questions on finance awareness was adapted from the study of Nambisan *et al.* (1999) and Tang *et al.* (2012) while seven items used to measure access to finance were adapted from the scale of Martin *et al.* (2007). All in 5 likert scale. The 103 questionnaires were self-administered, out of which 74 were dully completed and usable which represent 74% of response rate. The study use SPSS v22 for data screening and Smart PLS 2.0 statistical package for further analysis.

Research model: The model involving finance awareness, access to finance and SMEs performance was examined where two-step approach of Chin (1998) (i.e., measurement model and structural model) (Fig. 1).

RESULTS AND DISCUSSION

The measurement model: This involves the assessment of constructs, discriminant and convergent validity as well as reliability to establishing the goodness of measures. Hence to fulfil the measurement model, six items were deleted which are FAW3, FAW8, FAW9, PERF1, PERF4, PERF5 as it did not satisfy the minimum requirements (Chin, 1998; Hair *et al.*, 2010). Therefore, it has shown that, the adapted instruments in this study are reliable, since all the items meet the benchmark of 0.4 and above loading and all the items loading ranges from 0.5438-0.8721.

Based on Chin (1998) and Hair, Ringle and Sarstedt (2011) is acceptable as it is above the cut-off value of 0.4. Similarly, the value composite reliability ranges from 0.84-0.91 which are also in line with Hair *et al.* (2011) that recommended 0.7 as the benchmark. However, to determine the convergence validity, AVE was used. The

Table 1: Factor loading

Items	Factor loading	Composite reliability	AVE
AF1	0.5461	0.9129	0.604
AF2	0.7042		
AF3	0.8107		
AF4	0.8109		
AF5	0.8887		
AF6	0.8511		
AF7	0.7776		
FAW1	0.6273		
FAW4	0.8361	0.8628	0.5145
FAW5	0.7382		
FAW6	0.7581		
FAW7	0.7056		
FAW8	0.614		
PER2	0.8516		
PER3_1	0.7507		
PER6_1	0.7362	0.8498	0.5381
PER7	0.4875		
PER8_1	0.7886		

Table 2: Discriminant validity

Variables	AF	FA	PRF
AF	0.77717		
FA	-0.1483	0.71729	
PRF	-0.1376	0.4397	0.73355

Table 3: Hypothesis testing results

Hypothesis	β	SE	t-statistics	p-value
FAW->PRF	0.451	0.0713	6.3216	0

***, **, *p<0.001, 0.01, 0.05

Table 4: Mediation hypotheses

Hypothesis	β	SE	t-statistics	p-value	Decision
FAW->AF	0.0204	0.0044	4.5843	0	Supported
*AF->PERF					

VAF: FAW->AF*AF->PERF = 1.42

AVE in this study ranges from 0.5078-0.5971 which is above the minimum threshold of 0.5 (Hair *et al.*, 2011). Finally, discriminant validity was determined; the calculated square root of the AVE ranging from 0.7126-0.7727 exceeded the inter-correlations of the construct with the other constructs in the model, indicating sufficient discriminant validity (Chin, 1998). Table 1 present the data on factor loading and Table 2 described discriminant validity. While, Fig. 2 illustrated the measurement model of the study.

The measurement and structural model: After meeting the requirement of measurement model, the next step is testing the proposed hypotheses; this can be done by running PLS algorithm and boots trapping using smart PLS 2.0. Figure 2 and 3 will present this and Table 3 and 4 provides the hypotheses testing result.

Testing the mediating effects of access to finance: In testing the mediating effects of access to finance on the relationship between finance awareness and SMEs performance, this study used PLS in estimating the indirect effects among the variables at 0.05 level of significance (Table 4).

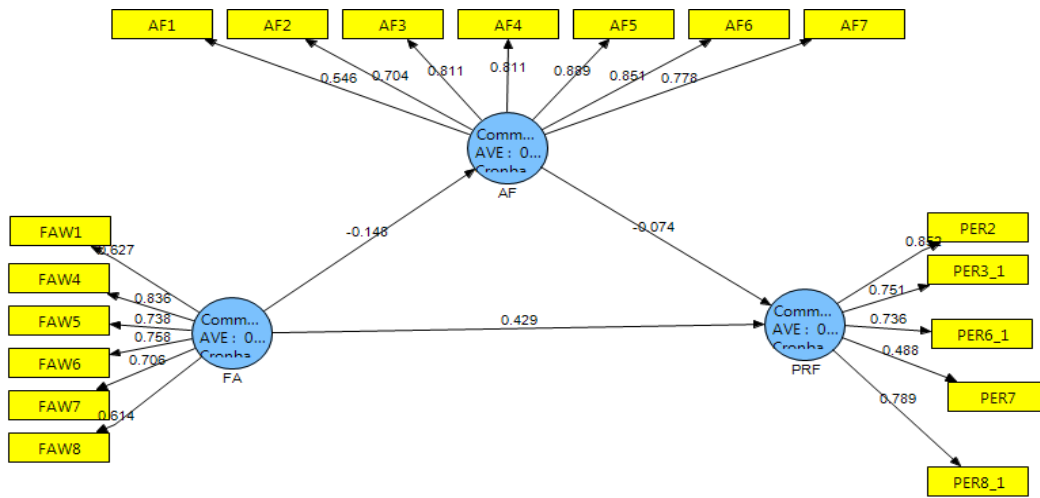


Fig. 2: Measurement model

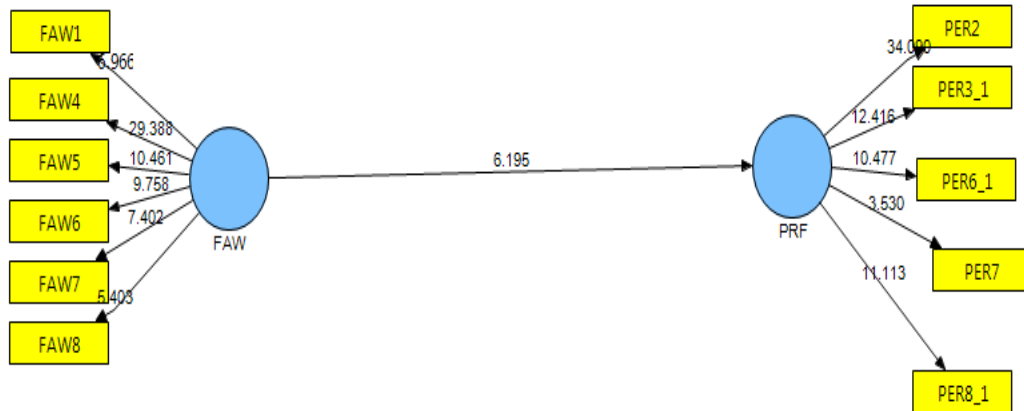


Fig. 3: Structural model

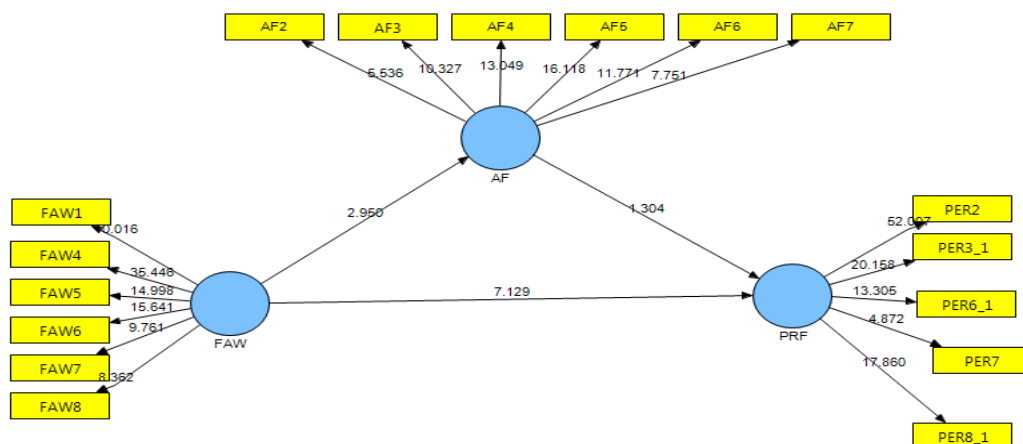


Fig. 4: Indirect effect

Consequently, it can be concluded that access to finance fully mediates the relationship between finance awareness and SMEs performance based on the threshold

of Variance Accounted For (VAF) which categorized mediation as: if the VAF is <20%, there is no mediation, if it is 20-80%, it is partial mediation and if it is >80%, it is full

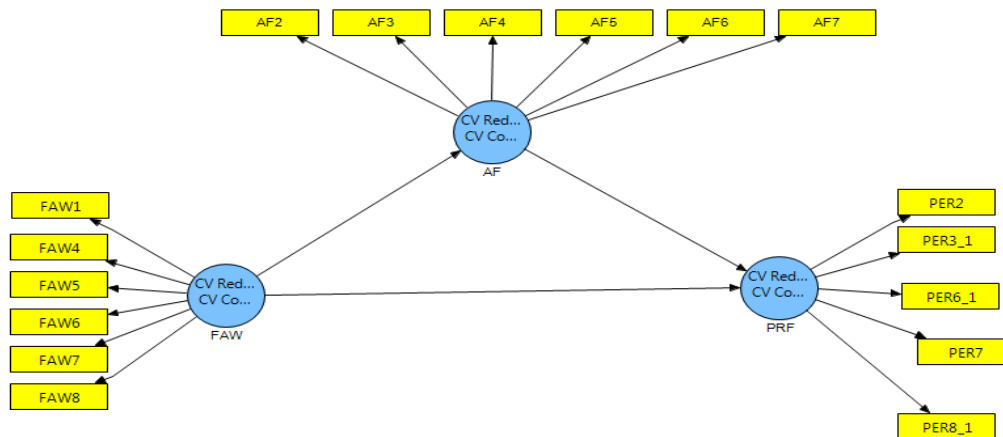


Fig. 5: Predictive relevance

mediation (Hair *et al.*, 2011). Therefore, the VAF of the two mediating effect are $>80\%$ which is 1.42 and both direct and indirect hypotheses are significant. Figure 4 present the result of mediating effects of access to finance on the relationship between finance awareness and SMEs performance.

Predictive relevance of the model: This study evaluated predictive relevance of the model through cross validated redundancy, by running the blindfolding procedures in Smart PLS 2.0 which generates cross validated communality and cross validated redundancy. The value of cross validated relevance of this model is 0.0106 as indicated in Fig. 5. This is in line with the Stone (1974) and Geisser (1974), any model with Q^2 above zero has predictive relevance. Chin (1998) also provided standards of judging model predictive relevance using value of cross validated relevance of: 0.02 is small; 0.15 is medium; and 0.35 is large. Therefore, based on Chin (1998), Geisser (1974) and Stone (1974) the model has small predictive relevance.

The aim of the study is to examine the mediating effect of AF on the relationship between the FAW and SMEs performance. The statistical finding of the study shows that all the hypotheses were supported. In the first hypothesis, FAW and SMEs performance relationship is significant ($\beta = 0.0451$, $t = 4.5843$, $p = 0.00$). This result is in line with the finding of Mansor *et al.* (2012) which is statistically significant and positive. Despite the fact that, these studies viewed the concept of awareness in different context but their outcome is in harmony with the present study. Consequently, it implies that, maximum level of organizational performance depend on the higher level of entrepreneurial awareness. Equally,

second hypothesis supported the argument that AF mediated the relationship between FAW and SMEs performance ($\beta = 0.0204$, $t = 4.5843$, $p = 0.000$).

The study contributes by extending of the existing literature on FAW-SMEs performance relationships. Additionally, this study is among the few studies that examine the mediating effect of access to finance on the relationship between FAW and SMEs performance. Basically, the outcomes of this study will help the policy makers/stakeholders in taking proper decisions regarding to campaign awareness toward the existence and benefit of available financial services. It also helps SME's operators in understanding the vital role played by access to finance toward performance increase.

CONCLUSION

Access to finance can help entrepreneurs to get the desired extreme performance in organizations. Lastly, the study recommended that, large sample should be employed for the future research using smart PLS in order to re-confirm the model.

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