

**FACTORS INFLUENCING SMES
PERFORMANCE IN SAUDI ARABIA:
MODERATING EFFECT OF ACCESS TO
FINANCE**

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FINANCE**

by

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LIST OF ABBREVIATIONS

AVE	Average Variance Extracted
CA	Cronbach's Alpha
CMB	Common Method Bias
CR	Composite Reliability
f^2	Effect Size
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
Gof	Goodness of Fit
HTMT	Heterotrait-Monotrait Ratio
IFC	International Finance Corporation
KSA	Kingdom of Saudi Arabia
OECD	Organization for Economic Cooperation and Development
PIF	Public Investment Fund
PLS-SEM	Partial Least Squares Structural Equation Modeling
Q_2	Cross Validated Redundancy Measure
R^2	Coefficient of Determination
RBV	Resource-Based View
RR	Response Rate
SAGIA	Saudi Arabia General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SD	Standard Deviation
SEM	Structural Equation Modelling
SIDF	Saudi Industrial Development Fund
SMEGA	Small and Medium Enterprises General Authority
SMEs	Small and Medium Enterprises (SMEs)

SPSS	Statistical Package for the Social Sciences
SRMR	Standardized Root Mean Square Residual
UAE	United Arab Emirates
UE	United Kingdom
USA	United States of America
USM	Universiti Sains Malaysia
VIF	Variance Inflated Factor

**FAKTOR YANG MEMPENGARUHI PRESTASI SMES DI SAUDI ARABIA:
KESAN MODERASI CAPAIAN TERHADAP KEWANGAN**

ABSTRAK

Dalam tindak balas terhadap cabaran yang dihadapi oleh SMEs, termasuk kekurangan akses pada kewangan, kekurangan kompetensi pengurusan, dan keperibadian pengurus, kajian ini bertujuan untuk mengisi jurang literasi dengan mencadangkan dan mengesahkan model prestasi SMEs berdasarkan Resource-Based View theory (RBV). Menggambarkan teori ini, kajian ini mengkaji peranan sederhana untuk akses pada kewangan dan hubungan antara umur, pendidikan, pengalaman, latihan, hal ehwal Islam, pengetahuan kewangan, dan kecekapan pengurusan terhadap prestasi SMEs di Arab Saudi. Sejumlah 576 pemilik dan pengurus SMEs perkilangan dan peruncitan / borong di tiga bandar utama di Arab Saudi terlibat dalam kajian tersebut. Analisis Partial Least Square (SmartPLS 3.2) menyokong hubungan hipotesis. Khususnya, umur, hal ehwal Islam, dan kecekapan pengurusan didapati mempunyai hubungan positif yang signifikan dengan prestasi SMEs. Hal ini dijangkakan bahawa pendidikan, pengalaman, latihan dan pengetahuan kewangan akan meningkatkan prestasi SMEs, tetapi penemuan kajian ini tidak menyokong jangkaan ini, kerana pengalaman dan pengetahuan kewangan secara negatifnya mempengaruhi prestasi SMEs. Menariknya, akses pada kewangan menyederhanakan hubungan antara umur, hal ehwal Islam dan prestasi SMEs. Khususnya, perhubungan ini lebih kuat bagi para pengurus yang mempunyai akses pada kewangan yang tinggi daripada para pengurus yang mempunyai akses kewangan yang rendah. Penemuan ini menunjukkan hubungan negatif yang lebih lemah antara pendidikan dan prestasi

SMEs yang tinggi berbanding dengan tahap akses yang rendah pada kewangan. Tambahan pula, keputusan menunjukkan bahawa hubungan antara pengalaman, pengetahuan kewangan, dan prestasi SMEs sangat negatif bagi para pengurus yang mempunyai akses yang tinggi pada pembiayaan berbanding dengan pengurus yang mempunyai akses pada tahap kewangan yang rendah. Akhirnya, hubungan antara kecekapan pengurusan dan prestasi SMEs adalah kurang positif bagi para pengurus dengan akses yang tinggi pada pembiayaan daripada para pengurus dengan akses yang rendah pada pembiayaan. Walau bagaimanapun, tiada kesan penyederhanaan untuk akses pada kewangan didapati dalam halatuju antara prestasi latihan dan SMEs. Diambil kira, penemuan kajian ini memberikan sokongan empirik pada pandangan bahawa kecekapan pengurusan pada umumnya, umur dan hal ehwal Islam khususnya, dapat meningkatkan prestasi SMEs, terutama dalam kalangan para pengurus yang mempunyai akses yang tinggi untuk membiayai. Implikasi teoretikal dan pengurusan dibincangkan dan telah disimpulkan.

FACTORS INFLUENCING SMES PERFORMANCE IN SAUDI ARABIA: MODERATING EFFECT OF ACCESS TO FINANCE

ABSTRACT

In response to the challenges facing SMEs, including a lack of access to finance, a lack of management competency, and manager characteristics, this study aims to fill the literature gaps by proposing and validating the SMEs' performance model based on the Resource-Based View theory (RBV). Drawing upon this theory, this study examines the moderating role of access to finance on the link between age, education, experience, training, Islamic religiosity, financial knowledge, and management competency on SMEs' performance in Saudi Arabia. The current study adopted a quantitative method and rely on the cluster sampling method of data collection to divide the three regions into three clusters. This research relied on owner-managers as the unit of analysis due to the unique characteristics of the SME context. A total of 576 owners and managers of manufacturing and retail/wholesale SMEs in three major cities in Saudi Arabia participated in the study. The Partial Least Square (SmartPLS 3.2) path analysis supported the hypothesized relationship. Specifically, Islamic religiosity and management competency were found to have a significant positive relation with SMEs' performance. It was expected that age, education, experience, training, and financial knowledge would improve SMEs' performance, but the finding of this study does not support this expectation, as experience and financial knowledge negatively influence SMEs' performance. Interestingly, access to finance moderates the relation between age, Islamic religiosity and SMEs' performance. Specifically, this relation is stronger for managers with high access to finance than for managers with low access to finance. Furthermore, the results indicate that the relation

between financial knowledge and SMEs' performance was strongly negative for managers with high access to finance as opposed to managers with access to low levels of finance. Finally, the relationship between management competency and SMEs' performance was less positive for managers with high access to finance than for managers with low access to finance. However, no moderating effect of access to finance was found on the path between training, education, experience, and SMEs' performance. The results of this study provide important insights to owner-managers, policy-makers, and the government to further understand the factors influencing SMEs' performance. Owner-managers of SMEs should emphasize management competency and Islamic religiosity; however, it is important to note that over-concentration on management competency may result in lower accessibility of financing. Policy-makers may channel the funds and consider the provision of grants to SMEs' managers with low access to finance to improve management competence encourage SMEs to improve their cash flow, profit, and retained earnings which may encourage financial institutions to provide them with financial services. The government should create appropriate education and training programs to help SMEs have not been successful. Lastly, the limitations of the current study and avenues for future research are discussed.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This section briefly outlines the contents of Chapter One. This outline is a preamble to the sub-chapters of this thesis. The background of the study commences this chapter, followed by the problem statement and research questions. The other elements are the research objectives, the significance of the study, the scope of the study, the definitions of the key terms, and, lastly, the organization of the final study. The next section focuses on the preamble of the study.

1.2 Background of the Study

The world economy has undergone a radical transformation that has increased the economic growth of countries that involved local to international trade. Studies have shown that small and medium enterprises (SMEs) are one of the means through which this has been achieved and it has attracted enhanced worldwide consideration (Amin, Thurasamy, Aldakhil, & Kaswuri, 2016; Bongomin, Ntayi, Munene, & Malinga, 2017). This is because it is recognized as a major contributor to economic development in terms of income generation, labor absorption, technological advancement, poverty mitigation, and contribution to the Gross Domestic Product (GDP) (Agyei, 2018; Bongomin et al., 2017; Etuk, Etuk & Michael, 2014; Qureshi & Herani, 2011; Ye & Kulathunga, 2019). Specifically, they represent about 90% of businesses and more than 50% of the total employment. They contribute up to 40% of GDP in emerging economies (World Bank, 2019) and approximately 56% of the GDP of many European countries (Muller, Julius, Herr, Koch, Peycheva, & McKiernan,

2017). Having a strong SME sector is crucial to establishing a solid industrial sector in an economy (Small bone, Welter, Voytovich, Egorov, 2010) and, therefore, well-functioning SMEs is essential for steady and continuous economic growth (Alrashid, 2016; Ode, Wombo, Ede, & Mile, 2014; Ye & Kulathunga, 2019).

Therefore, SMEs have been increasingly considered as one of the major contributors to economic growth in many nations' economies. In developed economies, in the United States of America (USA) and Japan, SMEs contribute over 50% of the annual GDP of the country while in Germany they contribute 53.5% to the GDP (IfM Bonn (n.d); Organization for Economic Cooperation and Development-OECD, 2016; Yoshino, 2015). In the United Kingdom (UK), SMEs contribute 59.1% of private-sector employment accounts for 48.8% of the private sector turnover, 99.9% of all private sector firms, and over 50% of the annual GDP of the country (The Federation of Small Business, 2013). In upper-middle-income countries like China, SMEs contribute 60% to the GDP, while in South Korea the contribution of SMEs to GDP stands at 49.4% (Chiladaily, 2017; OECD, 2016). In Malaysia, SMEs contribute 38.3% to GDP (Department of Statistics, Malaysia, 2018, see Table 1.1).

Table 1.1: Contribution of SMEs to GDP in Selected Countries

Country	Percent	Year	Source
India	28.9%	2017	Ministry of MSME annual report 2018-2019
KSA	20%	2018	SMEGA (2018)
Bahrain	30%	2018	Al-Suhaimi (2018)
Malaysia	38.3%	2018	Department of Statistics, Malaysia (2018)
South Korea	51%	2017	Al-Abri, Rahim, and Hussain (2017)
USA	51%	2017	Al-Abri et al. (2017)
Germany	54.4%	2018	(GERMANY- SBA Fact Sheet, 2019).
China	60%	2019	Statista (2020)

Source: Author's Compilation;

Besides, SMEs occupy a central position in policy issues and academic research as an essential source of employment and a mechanism for stimulating economic growth (Saudi Arabia Report, 2016). According to the World Bank (2019) estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. In addition to this, the World Bank also estimates that, in the next 15 years, 600 million workers will be required, especially in Asia and Africa.

In developing countries, the SME sectors have stagnated rather than expanded and become more sophisticated (Ye & Kulathunga, 2019). SMEs cannot be ruled out when it comes to income generation, job creation, poverty reduction, and the contribution to the GDP of developing nations (Alenzy, 2018). This reflects the reason why countries are attempting to create a business-friendly environment for the survival of their business sector. Having a strong SME sector is essential for developing economies, where there is huge potential for the development of this sector although they have yet to realize the full benefits of a strong SME sector (Ye & Kulathunga, 2019). The rapid economic development and higher profitability of emerging markets allow SMEs to become more competitive in both the domestic and global markets (Hosseini, Fallon, Weerakkody, & Sivarajah, 2019).

Likewise in the Kingdom of Saudi Arabia (KSA), SMEs have been recognized as a major contributor to economic activity and a means of poverty mitigation (Alenzy, 2018; Saudi Gazette, 2017). The Saudi Arabia Report (2016) on SMEs depicted that almost 90% of the businesses are components of the SME with a count of 1.97 million

approximately. The report avers that 85% of these SMEs have an ownership structure entailing a single proprietor. The majority of these SMEs are in trade and construction businesses, followed by the industrial sector. They account for 34 percent of the total employment (around 33 percent are employed in wholesale and retail SMEs, and 10 percent employed by SMEs operating in the manufacturing sector) and only 5 percent of the export sector (Saudi Gazette, 2017). The SME sector is an important contributor to the GDP and economic performance of a nation (Saudi Arabia Report, 2016). According to the Small and Medium Enterprises General Authority (SMEGA, 2018), SMEs contributed 20% to the total GDP of the nation compared to 50 percent of developed economies like Germany and Japan, that have the same number of SMEs that contribute a higher percent to their respective economies, which is lower compared with other developing economies such as Bahrain and Malaysia, but higher compared to many Gulf Cooperation Council (GCC) countries.

As shown in Table 1.1 that KSA is one of the countries with a lower SME contribution to GDP (SMEGA, 2018). However, the contribution of SMEs in Saudi Arabia remains a significant issue, especially as the country aims to feature among the big economies by 2023 (Vision, 2030). The development of an enabling environment for SMEs is one of how the Saudi Vision 2030 intends to diversify the economy via the proposed plan to increase the GDP contribution from 20% to 35% by the year 2030. Certainly, SMEs will play an important role in achieving this dream. Saudis are wondering whether the SME sector can mitigate the huge reliance on the oil sector in the future. This motivated the Saudi government to start paying attention to the development of SMEs via the Saudi Vision 2030 which is designed to decrease Saudi Arabia's reliance on oil and expand its economy via SMEs (Alrashidi, 2016).

Toward SME development, the government has set a comprehensive approach to increase access to financing and strengthening the business infrastructure; for example, the Saudi Industrial Development Fund and Saudi Credit & Saving Bank. Labour and Social Development Minister (Ali Bin Nasser Al Chafee's) said that 40,000 SMEs were financed with SR 6 billion in 2017 (Saudi Gazette, 2017). In 2017, Saudi Arabia's SME Authority launched several initiatives to support and sustain the private sector of the SMEs. The concept behind these initiatives is to increase SMEs and, in principle, enhance the contribution to the country's GDP and the economy, due to the support of the government in terms of funds and subsidized loans as capital to start businesses (Saudi Ministry of Commerce and Industry, 2013). If well harnessed, could this make the government decrease the dependence on oil? This is the major source of income that is expected to fall within a decade from now.

Despite these programs and policies, the performance of SMEs in the country is not appreciated due to issues related to poor funding, obtaining loans and support in the form of financial resources, a lack of formal human resources (HR) policies and strategies, a lack of qualified labor and highly-skilled employees, and a failure of enterprises to innovate due to a lack of new technologies (Mohammad, 2015; Tripathi, 2019). The main reason for the decline in the number of ex-pats is the high living costs and strict restrictions imposed by the government. Of all of these issues, access to finance, management competency, and owner/manager characteristics such as experience and training, occupy a central position. A lack of experience is one of the major determinants that influence entrepreneurial performance (Hosseinia & Ramezani, 2016). Consequently, these fundamental problems have forced many SMEs either to become micro-business or cease to exist. The worry for many Saudis is that

the impact of this huge finance on the economy is not significant enough to justify the claim. The question is: has this huge amount invested in SMEs or did the SME owners who received the financial assistance lack the financial knowledge to manage the fund?

Performance is a relative term used in several areas to describe how processes/operations realize their objectives. SMEs' performance can be measured by the achievements of the work, measured by the level of revenue achieved as the results of the efforts (Irfani, Aryani, Mukri, & Fujianti, 2016). However, in line with Aminu and Sharif (2015), this study defines SMEs' performance as the ability effectively and efficiently to utilize the available resources to survive, satisfy customers and contribute to the creation of employment. From the stance of SMEs, enterprise performance is highly dependent on the owner-mangers' characteristics and competencies, such as leadership capabilities, managerial and networking skills, technological abilities, financial literacy, and the education level of entrepreneurs (Al Mamun, Ibrahim, Yusoff, & Fazal, 2018; Chahal, Jyoti, & Rani, 2016; Georgiadis & Pitelis, 2016; Lateh, Hussain, & Halim 2017; Ye & Kulathunga, 2019).

Therefore, it is essential to identify the individual factors (age, education, experience, and training), Islamic religiosity, financial knowledge, and management competency that may influence SMEs' performance. These entrepreneurial characteristics, managerial competencies, networking skills, financial knowledge, and the education level of the managers help to build the proper behaviors for superior business performance (Adamu, Kedah & Osman-Gani, 2011; Ha, Lo, & Wang, 2016; Islam, Khan, Obaidullah, & Alam, 2011; Lateh et al., 2017). Other scholars have shown that these small firms have been characterized as heavily relying on the owners'

characteristics to give firms a competitive advantage which will lead to better performance (Isaga, 2018; Lateh et al., 2017; Odhiambo, 2013; Zannah, Mahat, Ariffin, & Ali, 2017), which is the prime focus of this study. It has been acknowledged that these managers' characteristics such as age, education, experience, and training, are vital personal properties with regard to SMEs' success in KSA (Al-Tit, Omri & Euch, 2019). Therefore, a combination of these four characteristics might provide firms with intangible resources that are valuable, and rare, and substitute. Moreover, the Resource-Based View (RBV) upholds that specific traits of business managers from the stance of valuable knowledge, skills, beliefs, and experiences can accelerate the performance of an organization (Barney, 1991; Grant, 1991).

Studies on Islamic religiosity argue that owners/managers who practice their business well, with fair dealing, honesty, and firmness, will experience better performance (Firdaus, Hussain, Asaad, & Yusoff, 2015; Irfani et al., 2016; Kamarudin, Baharun, Ridhuan, & Liaw, 2013). Faith, honesty, determination, competence, and efficiency provide the basis for performance in the light of Islamic teachings (Rana & Malik, 2017). The literature on Islamic religiosity suggests that owners who are continually committed to Islam principles will be better able to place generally more significance on qualities that empower them to maintain a strategic distance from vulnerability and so improve their performance (Gursory, Altinay, & Kenebayeva, 2017). It is apparent from the reviewed literature that the application of Islamic principles in business has received scant attention from researchers (Ramadani, Dana, Ratten & Tahiri, 2015; Rana & Malik, 2017), and little is known about how Islamic religiosity boosts SMEs' performance.

Equally, studies on financial knowledge suggest that the managers of firms with better financial knowledge have the potential to have more funds and achieve higher performance (Eniola & Entebang, 2016; Ha, Lo, & Wang, 2016). Similarly, studies on financial knowledge indicate that firms can achieve competitive advantages and the resultant effect would be growth in SME performance so developing skills and knowledge in a financial business firm is a crucial choice on the long list of financial needs (Bongomin et al., 2017; Ha et al., 2016; Mutegi, Njem, & Ongesa, 2015; Ying, Hassan, & Ahmad, 2019). Similarly, studies on SMEs' performance indicate that the competencies of an SME's manager can achieve a competitive advantage by offering better attributes, such as administrative and technical skills (Rasmussen, Mosey & Wright, 2011; Tehseen & Ramayah, 2015). Management competency (skills, knowledge, etc.) can be considered a vital and intangible resource that is difficult to imitate and considered a significant driver of high profitability (Akhtar, Khan, Frynas, Tse, & Rao-Nicholson, 2018). However, due to the contextual nature of the top management's competencies and skills (Tehseen & Ramayah, 2015; Wijaya & Irianto, 2018), the results of these studies are inconclusive and do not warrant generalization because they are contradictory.

Access to finance can underpin the effective implementation of SMEs' performance and financial management plans by allowing SMEs to access finance (Adomako, Danso, & Damoah, 2016). In line with the RBV, past studies have provided further evidence to support the view that access to financial capital is the basic mechanism that enables SMEs to gain a sustainable competitive advantage and sustain SMEs' performance (Cullen, Johnson, & Parboteeah, 2017; Fonseka, Yang, & Tian, 2013; Ying et al., 2019). Hence, in any nation, access to financial resources is one of

the major critical resources that facilitate SMEs' business activities (Kelley, Singer, & Herrington, 2012). As a firm develops, more financial resources are required for expansion, innovation, and to ensure the survival of the firm. However, the lack of finance was the main reason for the failure of SMEs. The difficulty of financing SMEs is a general problem that has been identified as one of the major constraints on the performance and sustainability of SMEs (Ye & Kulathunga, 2019). It is more difficult for SMEs to access sources of finance, such as banks, capital markets, or other suppliers of credit than it is for larger organizations (Ahlstrom, Cumming, & Vismara, 2018) especially in developing countries. In 2011, the credit gap for formal SMEs in developing nations ranged from \$900 to \$1,100 billion as estimated by the International Finance Corporation. This represents a range of 26% and 32% of total credit to the formal SMEs (Abraham & Schmukler, 2017).

Additionally, although all organizations need financial resources to start, survive, and grow, it is difficult and costly for SMEs to gain access to external financial resources and the accessibility of such resources has declined sharply. Hence limited access to finance is a major reason hindering SMEs from realizing their full potential (Ye & Kulathunga, 2019). This is particularly true in KSA, where the stakeholders of SMEs are being discriminated against by a lack of access to finance, the difficulty in obtaining business loans, the unnecessary official procedures, a lack of credit access, a lack of training, and an unfriendly business environment (Alenzy, 2018). Al-Yahya and Alrey (2013) provide supporting literature to show that a lack of access to finance hinders SMEs' performance in KSA. SMEs in KSA continues to suffer due to the complexity of the regulatory and administrative procedures, slow capacity, poor capacity to attract talents, and difficulty in obtaining funding (Saudi Gazette, 2017).

All of these factors have combined to create a burden for KSA SMEs. The SMEs' lack of finance in KSA continues to be a major obstacle to their development, as the percentage of successful applicants for finance is very low. Furthermore, the challenges that SMEs face with regard to accessing finance have not been addressed, so it is vital to examine further if there are some manager characteristics, financial knowledge, and competence factors that can enable SMEs to survive better and gain access to financial resources.

Moreover, these issues need urgent attention, because apart from increasing the GDP contribution, SMEs are good avenues for decreasing Saudi Arabia's reliance on oil and expanding its economy in a country like KSA where crude oil is the major source of revenue for KSA (Rashid, 2016). This can only be achieved if all hands are on deck. This can be achievable via pragmatic planning and implementation. Improving SMEs' performance is therefore of paramount importance. However, it has been found that there is a lack of empirical studies that combine age, education, experience, training, Islamic religiosity, financial knowledge, and management competency as factors influencing SMEs' performance. Additionally, the moderating role of access to finance on the performance of SMEs, when combining these seven variables, is still unclear. Finally, most of the studies on SMEs' performance have been conducted in developed economies. However, in KSA, there are few empirical studies on managers' characteristics and other variables on SMEs' performance, especially on the influence of Islamic religiosity, financial knowledge, and management competency. Additionally, most of the previous studies have concentrated on either big firms or focused on one sector of the SMEs as this study focused on the manufacturing and retail aspects of SMEs.

1.3 Problem Statement

SMEs make a significant contribution to economic development via the creation of employment, technological advancement, reduction of poverty, innovation, and wealth distribution (Agyei, 2018; Ye & Kulathunga, 2019). SMEs that work well are essential to stability and continued economic growth. Thus, adequate resources are necessary for the growth and sustainable performance of SMEs (Ying et al., 2019). Access to finance improves the ability of SMEs to enhance their performance and long-term survival (Adomako et al., 2016; Aminu & Shariff 2015; Skirnevskiy, Bendig, & Brettel, 2017). However, the lack of financial capital is one of the major causes of SMEs' weak performance (Rogo, Shariff, & Hafeez, 2017). A recent study indicates that more than 50% of newly established SMEs shut down in the initial stage across the globe due to a lack of resources, a lack of competencies, and limited skills (Anwar & Ali Shah, 2018). According to the World Bank (2019), access to finance is a key constraint to SME growth and is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. Meanwhile, SMEs have been reckoned as battling several limitations in terms of personal traits and management competencies among the owners that hinder their growth, survival, and sustainability (Al Mamun et al., 2018; Lateh et al., 2017). Hence, there is interest among scholars and practitioners to find ways to increase the performance of SMEs.

SMEs have accounted for the majority of businesses in Saudi Arabia and have contributed about 34% to employment (Saudi Gazette, 2017). However, the contribution of SMEs to GDP in Saudi Arabia remains low, at about 20% when compared to the developed countries, and it contributes only 3% to exports (see Table 1.1 p. 2, SMEGA, 2018). Records show that the contribution of SMEs to the GDP of

KSA is not encouraging, ranging from 15.5 %, 17.5%, and 20% in 2014, 2015, and 2016 to date respectively (Saudi Industrial Development Fund, 2016; SMEGA, 2018), with little or no significant incremental impact. In 2016, Saudi Arabia's SME retail sales accounted for only 7.0% of its economy compared to 11.6% in the United Arab Emirates (UAE) and this sector suffered a slump in 2016 (4.6% value growth) and 2017 (GCC Retail Industry, 2019). In 2015, the Saudi Chamber of Commerce (SCC) reported that about 60% of SMEs in KSA wound-up after a year in operation. Hence, this indicates the low growth and high mortality rate of SMEs in the country and Saudi SMEs are not in a good position among their counterparts in high/medium-income countries (see Table 1.1). Consequently, the performance of SMEs in KSA is considered to be below expectations compared to other SMEs in high-income countries, such as the USA, and Germany, and middle-income countries like Malaysia. SMEs' performance remains crucial because it assists the ongoing transformation of the KSA economy towards diversification (Ali, Hilman, & Gorondutse, 2020). It is important to note that the poor performance of SMEs in KSA, especially when compared with other countries, is a serious issue, and a reason for researchers to investigate the factors that influence the performance of SMEs (Hilman, Ali, & Gorondutse, 2019).

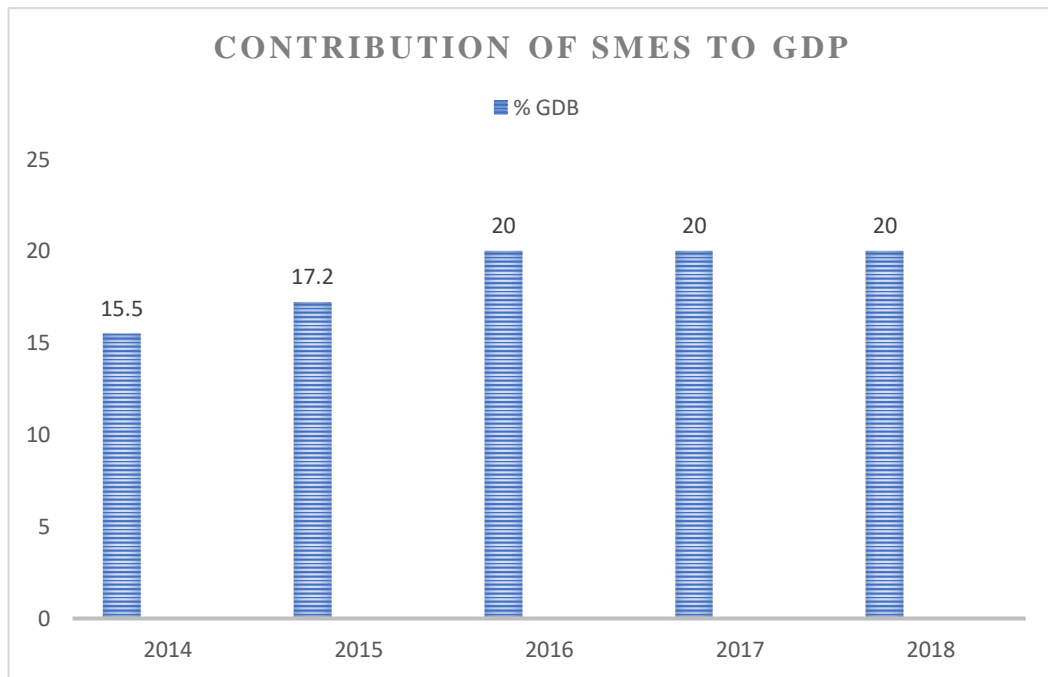


Figure 1.1: Contribution of SMEs to the GDP of Saudi Arabia

Despite the efforts made to improve the quality of the business environment, small enterprises in Saudi Arabia continue to suffer from the complexity of organizational and administrative procedures, slow capabilities, weak ability to attract talent, and difficulty in obtaining financing (Faridi & Malik, 2019). Moreover, it is reported that there are about 90 SMEs in the Kingdom of Saudi Arabia facing problems in obtaining financing, 58.16% are unable to employ skilled employees, 49.15 have no knowledge and experience in the field of business, and 45.20% lack management training and 42.37% lacked business training (Ahmed, 2012 cited by Rafiki, 2020).

Recently, Al-Sulaiman, General Authority Governor of SMEs, affirmed that Saudi SMEs cannot perform to expectations because of certain constraints related to financing and government procedures. The submission from Al Sulaiman gave a clear picture of the problem statement, especially coming from a top government official, to raise awareness that this issue is current and demands pragmatic solutions (Alenzy,

2018). The SMEs' lack of finance continues to be one of the significant issues accounting for the gross low performance of Saudi SMEs (Saudi Gazette, 2017). The financing ratio for Saudi SMEs is only (5%) of the total financing, which is a small percentage compared to global rates (Faridi & Malik, 2019).

It was noted that most Saudi SMEs' randomly prepare economic feasibility studies to obtain loans and financial support, which is another major issue that contributed to the failure of many projects (Tripathii, 2019). Besides, a series of studies have pointed out that the most critical issues affecting SMEs' performance in Saudi Arabia include a lack of financial resources, training for SMEs, a lack of managerial competency and skills, a lack of qualified labor and highly skilled employee, and the failure of enterprises to innovate (Alsamari, Slade, Sharif, & Saleh, 2013; Mohammad, 2015; Tripathi, 2019).

Unfortunately, there are limited studies on the factors influencing SMEs' performance in Saudi Arabia. Instead, the available related studies only explore the individual factors and business/SME characteristics (e.g., Alrashidi, 2016; Hasan, & Al Mubarak, 2016) and rather investigate the critical factors that significantly affect the success of SMEs in Saudi Arabia (e.g., Alfaadel, Alawairdhi, & Al-Zyoud, 2012; Al-Tit, Omri, & Euch, 2019). This research is, therefore, aimed at exploring and understanding the nature of the relations between owner/manager characteristics, management competency, financial knowledge, Islamic religiosity, and SMEs' performance. These factors must be continuously improved based on the current evidence, thus enhancing SMEs' performance in Saudi Arabia.

From the theoretical point of view, it has been revealed that there is a narrow perception of the factors influencing SMEs' performance. In prior studies, more emphasis is given to tangible resources, while intangible resources (i.e., manager characteristics) have received comparatively minor attention, despite their significant role in the performance of SMEs (Akinboade, 2015; Isaga, 2018; Zannah et al., 2017). Particularly the role of age, education, training, and business experience in predicting SMEs' performance is deficient in prior studies (Karadag, 2017; Ying et al., 2019). Existing findings on these factors have generally been inconclusive (Essel, Adams, & Amankwah, 2019; Isaga, 2018). Furthermore, SMEs' managers' age, experience, and skills are critical factors that affect the success of SMEs in KSA (Al-Tit et al., 2019) but the extent to which these traits affect SMEs' performance is still unclear. Thus, this particular study investigated the effect of significant owners' characteristics, including age, education, experience, and training on SMEs' performance to address the gap found in the entrepreneurial literature and practice of Saudi SMEs.

Besides, the Islamic religiosity as a factor that influences SMEs' performance has received less attention so far and most of the research in this area has shown that this has a bearing on the ultimate success of business firms (Gursory et al., 2017; Irfani et al., 2016; Kamarudin et al., 2013). Rana and Malik (2017) argued that, although some studies have examined the role of Islamic principles in business, a clear understanding of how these influence SMEs' performance is very limited (Amaliah, Aspiranti, & Purnamasari, 2015; Eid & El-Gohary, 2015; Irfani et al., 2016). However, the potential association between religious beliefs and organizational outcomes i.e., SME performance has so far been neglected (Husti & Mahyarni, 2019). It has also been recommended that it would also be interesting to examine the effect of religiosity

practices on SMEs' performance (Elias, Mahidin, & Bahaudin, 2019). Thus, the present study addresses this gap in the literature by examining the effect of Islamic religiosity on SMEs' performance in Saudi Arabia.

Furthermore, although financial knowledge has been identified as a vital knowledge resource for financial decision-making (Mutegi et al., 2015), little work has been done on the role of financial knowledge in explaining SMEs' performance (Ying et al., 2019). One explanation for the lack of studies that investigate the effect of financial knowledge on SMEs' performance is that the majority of the studies tend to focus on financial literacy rather than its specific forms in terms of financial knowledge (Adomako & Danso, 2014; Alessie, Van, & Lusardi, 2011; Kimunduu, Erick, & Shisia, 2016; Muraga & Ntoiti, 2015; Ying et al., 2019). This may not truly reflect the relationship; hence, this study attempts to gain insights into how financial knowledge influences the performance of SMEs.

Although there is a related research stream on managerial competence and SMEs' performance, the debate has been recently raised. For example, the influence of management competency on SMEs' performance has been reported to be positive (Ismail & Siengthai, 2010; Rasmussen, Mosey, & Wright, 2011; Tehseen & Ramayah, 2015), but negative in other studies (Wijaya & Irianto, 2017). Also, managerial competencies in some studies are found to have a strong influence on firms' performance (Kamukama, Kyomuhangi, Akisimire, & Orobias, 2017). These varying results indicate there is no consensus on the effect of managerial competency on SMEs' performance, so further research is warranted in this area.

Access to finance is a critical moderating factor that has been studied because of its significant role in improving the factors influencing SMEs' performance (Cacciotti & Hayton, 2015; Ibrahim & Shariff, 2016; Jabeen, 2014; Rogo et al., 2017) and pertinent in getting SMEs' performance right (Aminu & Shariff, 2015; Cullen et al., 2017). Although SMEs with more access to finance can theoretically contribute to high levels of education, training, experience, competency, knowledge and better SMEs' performance (Barney, 1991), the moderating role of this in the relations between age, education, experience, training, and SMEs' performance has not been examined. Besides, while there exists underlying empirical evidence for the moderating effects of access to finance on the relations between financial literacy and enterprise performance (Adomako & Danso, 2014), growth orientation and the development of small businesses (Liu, Cowling, & Zhang, 2014), TQM practice and SMEs' performance (Chen & Chen, 2011; Rogo et al., 2017), entrepreneurial self-efficacy and SMEs' performance (Shamsudeen, Keat, & Hassan, 2016), and strategic orientation attributes and SMEs' performance (Ibrahim & Shariff, 2016), the link between Islamic religiosity, financial knowledge, management competency, and SMEs' performance remains primarily unexplored in the literature.

1.4 Research Questions

Based on the problem statement, this study seeks to offer answers to the following research questions:

1. Do characteristics of the SMEs' managers, Islamic religiosity, financial knowledge, and management competency relate to the performance of SMEs in Saudi Arabia?

2. Does access to finance moderate the relationship between characteristics of the SMEs' managers, Islamic religiosity, financial knowledge, management competency, and the performance of SMEs in Saudi Arabia?

1.5 Research Objectives

This study aims to examine the moderating role of access to finance on the relationship between the characteristics of the SMEs' owner-managers, Islamic religiosity, financial knowledge, management competency, and SMEs' performance in Saudi Arabia. The aim is proposed to be achieved through the following objectives:

1. To examine the relationship between characteristics of the SMEs' managers, Islamic religiosity, financial knowledge, and management competency and the performance of SMEs in Saudi Arabia.
2. To examine the moderating role of access to finance on the relationship between characteristics of the SMEs' managers, Islamic religiosity, financial knowledge, management competency, and the performance of SMEs in Saudi Arabia.

1.6 Significance of the Study

This research will provide a better understanding of the effects of manager characteristics, financial knowledge, Islamic religiosity, and management competency on SMEs' performance in Saudi Arabia. In this regard, this study offers clarity on the moderating role of access to finance on the relationship between the performance of SMEs and their influential factors. While other practice views are related to the useful suggestion that will be provided to the Saudi SMEs, governments, and policymakers so that they can work on these recommendations. In turn, this will enhance the

performance of their business practices. Indirectly, it will offer a new direction in research about the predictors of performance in the context of SMEs.

1.6.1 Theoretical Perspective

This study provides more understanding of the relations between age, education, experience, training, financial knowledge, Islamic religiosity, and management competency on SMEs' performance in Saudi Arabia. To be specific, the study sheds more light on the moderating role of access to finance on the relationship between these seven constructs and the performance of SMEs. Furthermore, according to Henderson and Sadi (2011) and Alsamari et al. (2013), although SMEs in Saudi Arabia have prominently come to the attention of government circles and the media, less research has been carried out by scholars regarding factors influencing SMEs' performance. This study will attempt to address this gap empirically and come up with statistically acceptable evidence.

In terms of theoretical contributions, this study contributes by empirically testing the relationship between manager's characteristics, namely age, education, experience, and SMEs' performance. Previous research on SMEs' performance has investigated the influence of several characteristics of SMEs owner-manager performance. However, the combination of manager characteristics, namely age, education, experience, and training in a single model as independent variables influencing SMEs' performance has received little attention (Akinboade, 2015; Al-Tit et al., 2019; Zannah et al., 2017) especially in developing countries (Isaga, 2018). Furthermore, this study is one of the few studies that investigate the impact of Islamic religiosity and the performances of SMEs. A review of the peer-reviewed literature

revealed that there is a paucity of literature on the relations between Islamic religiosity and the performances of SMEs (Irfani et al., 2017; Rana & Malik, 2017). Therefore, a study of the Islamic religiosity - SMEs' performance relationship is warranted (Adamu et al., 2011).

It is also among the few studies that investigate the impact of financial knowledge on SMEs' performance. Although it is widely accepted that financial knowledge is important in the context of finance decisions (Mutegi et al., 2015; Plakalovic, 2015), the concept of owner/manager-level financial knowledge is less well understood and researched, especially in developing countries (Drexler, Fischer, & Schoar, 2014). This research addresses this gap by exploring the effect of owner/managers' financial knowledge on the SMEs' performance in Saudi Arabia. In addition, this research targets the under-discussed zone, e.g., managerial competence (Tehseen & Ramayah, 2015; Wijaya & Irianto, 2017). More precisely, this research examines the influence of managerial competence on SMEs' performance. Further, the study contributes to the advancement of the body of academic literature relating to the moderating effect of access to finance on the relations between age, education, experience, training, Islamic religiosity, financial knowledge, and management competency on SMEs' performance.

This study will provide some insights into RBV theory by examining the intangible resources of a firm. More precisely, this research will provide evidence supports the theory of RBV to find which unique resources e.g., financial knowledge, management competency, and Islamic religiosity are crucial for managing competitive advantage and gaining high SME performance. It can provide empirical insights into

the relative effects of multiple individual resources e.g., education, experience, and training on the performance of SMEs. Finally, the current study represents a further contribution to methodology and literature of SMEs' performance by applying partial least squares structural equation modeling (PLS-SEM) in the field of moderating access to finance regarding these relations.

1.6.2 Practical Perspective

At the SME level, the results of the current study will also help the managers of SMEs in Saudi Arabia to improve the understanding of the main factors that should be improved. Applying these results, managers/owners may improve performance, therefore ensuring the survival and continuity of the SME sector in a highly competitive business environment. This study could help to support Saudi SMEs to enhance their performance in the global setting since the proposed variables can help SMEs to strengthen their exports. This is particularly important because SMEs are practically the main foundation of every economy in both developed and developing countries. SMEs work to accelerate the process of economic development and technological advancement. There is no need to over-emphasize that the role of SMEs is noted to be central in enabling a novel and creative knowledge-based economy.

For instance, by neglecting owner-manager characteristics, SMEs are unable to access bank loans to help them to accomplish project goals, to resolve problems, to develop new ideas, build their competitive advantage. Therefore, SMEs need to focus on their managers' characteristics as it could help them to navigate their direction successfully. Besides, by focusing on the management competency aspect, the managerial implication is that SMEs need to promote the owner-managers' skill and

experience as well as managerial competency practices to boost successful performance. In this regard, the managers/owners of SMEs need to understand the Islamic principles in the implementation of business activities, to assist effective performance.

This research, therefore, supports the idea that the religiosity practices among the top management managers in the enterprises may contribute a significant impact to the business performance. At the same time, SME managers/owners must strengthen and deploy Islamic principles which bring some benefits for the whole enterprise. Therefore, an emphasis needs to be put on religiosity practices which may have a positive impact on their job performance and directly expedited enterprise business performance. SMEs need to look around for more access to funding to implement their activities and projects. However, it is not an easy task, and most of them are unable to perform due to the scarcity of funding resources, and together with tempestuous competition, it further creates some difficulties for SMEs. Therefore, SMEs need to alter their managerial competency, funding, and operations.

At the national level, since this study has been centered on the aspect of managerial characteristics for owners-mangers, competency, and access to finance knowledge, and Islamic religiosity for SMEs, this study also could help the government towards the realization of Saudi Vision 2030. In particular, the Vision 2030 plan gives the trend towards achieving the status of the developed country by 2030. Skills, experience, and competency are the most critical factors of productivity since the economy is mainly driven by the educated and skilled workforce. Hence, Saudi Arabia's government represented by SMEGA must ensure they have internal

procedures and policies to quickly develop owner-managers of SMEs in acquiring useful knowledge and improving their skills. On the other hand, without a major to provide adequate resources to SMEs from SMEGA and other responsible authorities which in turn will contribute to economic performance and employment, Saudi Arabia is unable to remain as a dynamic and productive nation and since oil resources are continuously eroding, Saudi Arabia is no longer able to compete with developed nations such as UAE. Therefore, by focusing on the moderating role of access to finance, this study could support the aim of the government to increase the GDP contribution of SMEs through improving their access to financing.

Besides, this study also has delivered several benefits to SME stakeholders. By focusing on managerial competency and Islamic religiosity, this could help SMEs to learn, adapt, and to apply how they deliver products and services so that they will be able to satisfy the need, request, and confidence of its beneficiaries. For instance, Islamic religiosity that focuses on encourages merit and competence, responsibility, accurate information, and consultative decision-making process will enhance owners-managers effectiveness by providing better social interaction with customers and employees which results in better SME service performance.

Next, the present study also could help researchers, practitioners, and policy-makers, to gain new insights on the determinants of Saudi SMEs' performance since there is inadequate research conducted on this topic. More specifically, by proposing a moderation model of access to finance, the findings will help policy-makers to develop an industrial policy to improve the SMEs' performance in the context of manufacturing in Saudi Arabia. For practitioners, this study provides more evidence

from the context of SMEs as also from the context of developing countries and to understand the situation and the relationship intricacies between the proposed variables. Finally, the findings and recommendations of this research will help to enhance the current knowledge about the factors that affect SMEs' performance from the context of the Arabic setting (Saudi Arabia) and offered a foundation for future research while few studies have been reported in this area.

1.7 Scope of the Study

The study focuses only on SMEs in Saudi Arabia, to examine the moderation role of access to finance on the relationship between age, education, experience, training, Islamic religiosity, financial knowledge, management competency, and SMEs' performance. This study is a quantitative and cross-sectional study. Data was collected using a questionnaire that is structured based on five points Likert scale. Specifically, a questionnaire was sent to the owners-managers of the SMEs operating in the manufacturing and wholesale & retail sectors in Riyadh, Jeddah, and Al-Qassim regions of the Kingdom of Saudi Arabia. The managers were selected as the most appropriate respondents in this research because they had the most knowledge and experience regarding their corporate strategies, comprehensive operational activities, the core of strategic decision-making process, and can give the most reliable information related to the company profile and performance (Arham, Sulaiman, Kamarudin, & Muenjohn, 2017; Hilman et al., 2019).

The study was restricted to two SME sectors: the manufacturing and wholesale & retail trade located in the three major cities of Jeddah, Riyadh, and Al-Qassim in Saudi Arabia. SMEs in wholesale and retail trade represented the first highest rate of