

Some Factors Affecting the Financial Performance of Small and Medium Enterprises (SMEs) in the Kingdom of Saudi Arabia

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Some Factors Affecting the Financial Performance of Small and Medium Enterprises (SMEs) in the Kingdom of Saudi Arabia

بعض العوامل المؤثرة على الأداء المالي للمنشآت الصغيرة والمتوسطة في المملكة العربية السعودية

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Abstract:

The objective of this study is to determine the factors affecting the financial performance (FP) of Small and Medium Enterprises (SMEs) in the Kingdom of Saudi Arabia. Three factors have been examined including corporate governance (CG), human resource capacity (HR) and access to finance (AF). Primary data were collected using a survey by visiting offices of the SMEs and electronically. Analysis was performed using multiple regression and factor analysis. The financial performance has a correlation coefficient of 0.63 with corporate governance, 0.33 with human resource capacity and 0.3 with access to finance. The multiple regression analysis results show significant positive effect of all three determinants on the financial performance of SMEs in KSA. The R-square value shows that 43 percent of changes in the financial performance are due to the three independent variables. During factor analysis, the value of KMO is 0.69, which means that the original factors can be used as variables with a strong correlation, and the Bartlett sphericity value is 752.456 which is statistically significant. In addition, the results of factor analysis show that corporate governance is the main factor affecting the financial performance of SMEs in KSA.

Keywords: SMEs; Financial Performance; Corporate Governance; Human Resource Capacity; Access to Finance; Kingdom of Saudi Arabia.

الملخص:

تهدف هذه الدراسة إلى تحديد العوامل المؤثرة على الأداء المالي للمنشآت الصغيرة والمتوسطة في المملكة العربية السعودية، وتم فحص ثلاثة عوامل بما في ذلك حوكمة الشركات (CG)، وقدرة الموارد البشرية (HR) والوصول إلى التمويل (AF)، وتم جمع البيانات باستخدام الاستبانة عن طريق زيارة مكاتب المنشآت الصغيرة والمتوسطة وعن طريق البحث إلكترونياً، وتم إجراء التحليل باستخدام الانحدار المتعدد وتحليل العوامل، وتبين معامل الارتباط للأداء المالي هو 0.63 مع حوكمة الشركات، و0.33 مع قدرة الموارد البشرية و0.3 مع الوصول إلى التمويل، وتظهر نتائج تحليل الانحدار المتعدد تأثيراً إيجابياً معنوياً لجميع العوامل الثلاثة على الأداء المالي للمنشآت الصغيرة والمتوسطة في المملكة العربية السعودية، وتوضح قيمة R-square أن 43% من التغييرات في الأداء المالي وترجع إلى المتغيرات الثلاثة المستقلة، أثناء تحليل العوامل، تكون قيمة KMO هي 0.69، مما يعني أنه يمكن استخدام العوامل الأصلية كمتغيرات ذات ارتباط قوي، وقيمة Bartlett الكروية هي 752.456 وهي ذات دلالة إحصائية، بالإضافة إلى ذلك، تظهر نتائج تحليل العوامل أن حوكمة الشركات هي العامل الرئيسي الذي يؤثر على الأداء المالي للمنشآت الصغيرة والمتوسطة في المملكة العربية السعودية.

الكلمات المفتاحية: المنشآت الصغيرة والمتوسطة؛ الأداء المالي؛ قدرة الموارد البشرية؛ الوصول إلى التمويل؛ المملكة العربية السعودية.

Introduction:

According to Harash et al. (2013), small and medium enterprises (SMEs) perform a significant role in the economic development, social uplifting and employment creation of every country. SMEs are considered the backbone of any successful and sustainable economy. With increasing globalization and trade around the world, SMEs can take advantage of global opportunities. SMEs have been accepted as the engine of economic growth and for promoting equitable development throughout the world. (Harash et al. 2013; Harash et al. 2014). A great majority of firms worldwide are SMEs, and they play a significant role in the economy. SMEs stimulate private ownership and entrepreneurial skills, encourage to adapt towards fluctuating market supply and demand situations quickly, generate employment, help diversify economic activity and make a significant contribution to exports and trade (Philip, 2010).

The Saudi economy is one of the emerging economies in the Middle East and North Africa region. In order to diversify the economy and shift from oil to non-oil-based economy, the Saudi government has given due importance to SMEs. Furthermore, it has been observed that SMEs constitute 99% of the private sector in the Kingdom of Saudi Arabia (Naushad, 2021). SMEs in the Kingdom of Saudi Arabia are regulated by Monsha'at (Small & Medium Enterprises General Authority). The number of SMEs is 1.97 million, and they constitute nearly 90% of the registered companies and account for 60% of the total employment in Saudi Arabia. Approximately 85% of these SMEs are sole proprietorships. The contribution of SMEs to GDP is 33%, which is lower compared to other developing economies, but higher compared to many GCC countries (Small Medium Enterprises in Saudi Arabia Report, 2016).

Classification of SMEs:

SMEs are generally classified based on the number of employees and the value of sales or assets. In Saudi Arabia SMEs are classified into three categories including Micro Enterprises, Small Enterprises and Medium Enterprises. The classification is based on two criteria together including the number of full-time workers and the volume of revenues. According to GaStat (2019), *Micro Enterprises* consist of full-time employees from 1 to 5 people and revenues from zero to 3 million Saudi riyals. During 2019, the total number of employees in SMEs was 2,162,924 which represented 26% of workers employed.

Small Enterprises consist of full-time employees from 6 to 49 people and revenues from 3 to 40 million Saudi riyals. The total number employed was 1,819,753 representing 22% of total employees. *Medium Enterprises* consist of full-time employees from 50 to 249 people and revenues from 40 to 200 million Saudi riyals. During 2019, the total number of employees in Medium Enterprises was 1,496,465 which amounted to 18% (GaStat, 2019: Report of General Authority of Statistics).

Considering the growing importance of SMEs in the economy, the government of the KSA is taking initiatives to encourage and develop small and medium enterprises. A sector-wise distribution of SMEs in Saudi Arabia includes commercial and hotels 47%, construction 27%, industry 12%, social services 8% and others 6% (GaStat, 2019).

The financial performance (FP) of a company can be measured through its survival, growth, and market share. Therefore, successful SMEs requires achievement of financial performance for expansion and continuation. The financial performance is measured as profitability and turnover of SMEs (Alshami, 2008). Access to finance (AF) is a major hurdle faced by start-up SMEs (Mazanai & Fatoki, 2012). A large number of SMEs depend on the contributions of the owners and the support of family or friends, and this may not be suitable for the financial growth of SMEs (Pretorius and Shaw, 2004). Thus, access to external financing is critical for the successful financial performance of SMEs.

Human resources in a company can be developed through training, development and advancement of workers. Beaver and Jennings (2001) indicate that SMEs should embrace diversity and flexibility in their human resources. According to Hakima et al. (2019), corporate governance (CG) refers to solving problems through the collective efforts of diverse stakeholders and includes issues of conflict between them. Better corporate governance (CG) ensures that businesses operate in a fair and transparent culture and that companies are accountable for their activities (Larcker et al., 2007). Considering the positive effect of corporate governance on the financial performance of an organization, it is widely recognized that good corporate governance improves corporate performance (Bai et al., 2004).

One of the major objective of the SMEs is to drive the growth of Saudi Arabia's economy and realize vision 2030 objectives and beyond so that their contribution will increase GDP share from 20% to 35% by 2030. Based on data provided from the General Authority of Statistics 2022 (Q4), SMEs contribute 66% of the total employment in Saudi Arabia, where their number reached 5,479,142 employees. The SMEs constitute 90% of the economies of the developing and developed countries and provide huge employment opportunities for manpower in these countries.

Despite the SMEs importance to the Saudi economy, it has been observed that ninety percent of Saudi SMEs are at risk of failure in their first year due to multiple obstacles, including poor capital, competition, unavailability

of a skilled workforce and bureaucratic government measures. Access to finance remains the greatest concern for the majority of SMEs (Khan, 2022).

There is a large number of researchers who have studied the factors that affect the financial performance of SMEs in different regions around the world such as Arshad et al. (2017) for Malaysia, Hakimah et al. (2019) for Indonesian, Islam et al. (2010) for Thailand” and so on. However, There are very few studies published on this topic using Saudi data.

The objective of the study is to propose policies that will lead to improvement in the performance of SMEs in KSA by investigating the factors including CG, HR and AF that affect their financial performance.

This paper has strong theoretical underpinnings on resource-based view theory. According to this theory, SMEs with strong physical, financial and human resource base have a comparative advantage over less resource endowed firms which leads to their outstanding financial performance (Barney, 1991).

The study will add to the knowledge of past researchers on different factors that affect performance of SMEs, particularly focused mostly on the financial performance of SMEs. Moreover, the study contributes to the broadening of our understanding of the factors affecting the financial performance of SMEs in Saudi Arabia especially from corporate governance (CG), human resource capacity (HR) and access to financing (AF). It provides the latest assessment of the financial performance of SMEs in Saudi Arabia. Future researchers and academic institutions, especially those from higher education, can use the results of this research as a reference and also to identify further research gaps to be filled in the future.

This research paper will encourage Saudi entrepreneurs as well as investors to strengthen the financial position of their enterprises by focusing on these factors; CG, HR and AF. This study will be useful for everyone who is interested in business and wants to engage in running either a new business or running business. As proved by previous research in the context of other countries, these factors are also important for financial performance of SMEs in Saudi Arabia considering that corporate governance not only enhances the financial performance and sustainability of a company, but also leads to the development and expansion of small and medium-sized businesses. Financial performance is also expected to be positively affected by human resource capacity of SMEs by integrating the employees with proper planning, control, organizing skills and appropriate recruitment with qualified personnel.

The rest of the paper is organized as follows: Section 2 discusses the literature exploring different factors affecting financial performance of SMEs. Methodology and data are discussed in section 3. Section 4 consists of discussion of results. Finally, section 5 concludes and proposes some policy recommendations.

Literature Review:

This research paper considers three most important factors that affect financial performance of SMEs in the Kingdom of Saudi Arabia: corporate governance (CG), human resource capacity (HR) and access to financing (AF).

Financial Performance (FP) of SMEs:

According to Njogu (2014), financial performance is measured by the revenues it generates by proper use of its business assets. FP is measured using different business ratios including turnover ratios and profit ratios among others. According to Philip (2010), a company is successful if it can achieve its goals and objectives properly. A firm's successful financial performance is considered a business success. There are several factors and elements examined by researchers that affect success of SMEs. Hence these determinants help to reduce the risk of failure and increase chances of success in operations of SMEs.

Islam et al. (2010) identify eight factors including management and know-how, SMEs characteristic, products and services, the way of doing business and cooperation, customer and market, resources and finance, external environment, and strategy affecting SMEs in Thailand. Questionnaire is used to collect primary among SMEs directors, managers and management teams. The results of the study reveal that the most significant factors affecting the business success of SMEs in Thailand are customer and market, SMEs characteristics, the way of doing business, external environment and resources & finance. The study recommends that the government should play a leading role in educating SME workers about the opportunities available to them. The study concludes that customers, market, resources and financing play a vital role to ensure the success of SME businesses in Thailand.

Corporate Governance (CG):

Corporate governance is of the utmost importance for the success of all companies whether local or global. The importance of corporate governance has been further highlighted during the global financial crisis and its negative effects. New governance regulations and rules have been introduced to control the mismanagement of shareholder interests by senior executives. The objective is to boost the performance of the corporate board of directors. The importance of disclosure and transparency has been emphasized (Hakima et al., 2019; Nakhaima, 2016).

According to Hakima et al. (2019), in order to reduce agency problems, companies adopt a set of rules and regulations which is called corporate governance. In the case of a company, the enhancement of shareholder value

through the adoption of the process and structure used to direct and manage business affairs in a company is called corporate governance. Analysis of the study reveals that the profitability of SMEs is positively affected by gender diversity and board size. Moreover, it becomes easier to obtain financing from investors and other financial institutions due to good corporate governance. A balance is achieved between owners and managers due to corporate governance which brings agency problems to a minimum level. Corporate governance is mainly concerned with investor protection, company efficiency, transparency and accountability as well as mitigating emerging disputes.

Nakhaima (2016) empirically investigates the factors that affect the financial performance of SMEs in Kenya. The results of the study show a positive effect of corporate governance on the financial performance of SMEs.

Human Resource Capacity (HR):

HR is vital for the success of any company since human resources play a key role in the working of a firm. Aleem and Rahman (2018) examine the relationship between HR practices based on hiring, compensation, training, performance appraisal and financial performance of Pakistani SMEs. The result demonstrates that SMEs' financial performance there is positively related to the practices of HR, performance appraisal and training.

Khan et al. (2020) study the influence of HRM on the FP of manufacturing SMEs in Korea. Their study concludes that HRM increases the financial performance of SMEs. Job satisfaction has a positive effect on financial performance. In addition, in order to increase the profitability and growth of the company, employee attitude needs to play an important role. Therefore, HR is a key endowment to achieving competitive advantage which should be considered the most important strength for an organization.

Nakhaima (2016) study reveals that there is a strong positive relationship between HR and financial performance of the SMEs in Kenya. It is recommended that SMEs should arrange for employees' training, employee participation and performance appraisal which contribute significantly to SMEs' performance.

Study by Noor et al. (2019) shows that the three factors including management & know-how, entrepreneurial characteristics and product quality have a strong relationship with the success of SMEs in Kelantan, Malaysia. Therefore, SME entrepreneurs must boldly take decisions with effective management skills and knowledge as well as pay attention to maintaining high-quality in-service provision and product in order to succeed in the business.

Philip (2010) examines six determinants of the performance of SMEs in an underdeveloped country like Bangladesh. These factors include management and know-how, characteristics of SMEs, products & services, the way of doing business, finance, resources and the external environment. The study shows that among these six factors, the most important factors that affect the business success of SMEs are products and services, management know-how, the way of doing business and external environment.

Access to Finance (AF):

SMEs mostly face problems about limited availability of finance which can be solved by easy access to financing facilities. There are three types of financial institutions: banking institutions, non-bank financial institutions and financing companies. Financing companies are business entities outside the banking channel and non-bank financial institutions are specifically established to carry out activities that are included in the business field of the institutional financing. Ease of access to financing is closely related to the financial performance of SMEs (Maesaroh, 2021).

SMEs need to demonstrate financial performance if they have to expand. Findings of the study by Mbuva & Wachira (2019) indicate that access to finance positively affects financial performance. The study recommends for that financial institutions create favorable policies to provide SMEs with easy access to loans. Moreover, the study also recommends government to offer incentives and funding to SMEs at a lower cost to boost their financial performance. Maesaroh (2021) study opines that SMEs need funding assistance in order to develop their businesses and enhance their performance. SMEs also need help to properly manage their borrowed funds.

Njagi et al. (2017) study reveals that the liquidity position of the business and the source of finance greatly affect financial performance of the SMEs. The equity financing of the SMEs yields an increase in financial performance because it is a source of a long-term financing with minimal cash outflow in the form of interest. The study suggests that angel investors should be involved as equity financiers since they not only provide the start-up capital but also provide book keeping and managerial skills to the SMEs.

Peter et al. (2018) conducted a study on government financial support and financial performance of SMEs. The results of the study reveal that performance of SMEs is significantly affected by financial assistance. Financial assistance also eases financial constraints and reduces risk by creating economic conditions that foster entrepreneurial activity, innovation and boosts profit. It is recommended that government should design support programs that will enhance the performance of SMEs. Similarly, facilitating access to funding facilities leads to enhanced performance of SMEs.

The financial management is considered the key to success of SMEs by improving their business efficiency. On the contrary, inefficient FM may harm business efficiency and consequently deteriorate the growth of SMEs. Arshad et al. (2017) study states that all three factors including financial management, management skills and marketing

skills strongly influence the success of a business. The main engine behind the growth of financial performance is access to finance because no firm can survive without sufficient funds (Agnew, 2003).

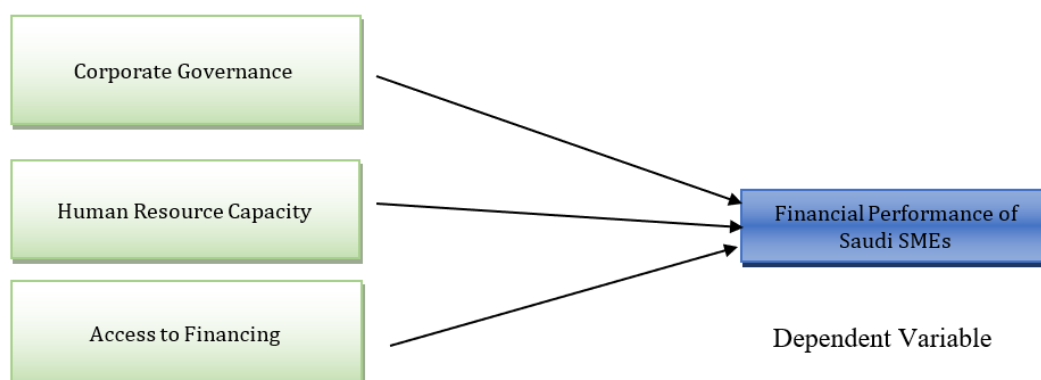
Harash et al. (2014), while examining the effects of financing on performance of SMEs, state that SMEs have been acknowledged as the engine of economic growth throughout the world. Moreover, SMEs face various kinds of challenges such as inadequate financing resources, poor customer knowledge, poor business enablers, lack of collateral or capital, lack of credit data, low profitability and so on. This research proves that without finance, SMEs neither absorb new technologies nor they stand to compete in global markets or even strike business linkages with larger companies. Hence, the relationship between financing and performance of SMEs has remained the most important subject of debate in the business finance literature.

To summarize, it can be stated that there are a lot of factors that affect the financial performance of SMEs which were adopted by different researchers and authors in previous studies and research. Njogu (2014) examines product/service innovation, process innovation and market innovation, Philip (2010) tests six factors characteristic of SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, external environment and so on. All these factors affect the financial performance of SMEs. In the same way, Arshad et al. (2017) examine three factors: financial management, management skills and marketing skills. According to Islam et al. (2011) these factors are important: SMEs characteristics, customers and market, the way of doing business, resources & finance and external environment affect the financial performance of SMEs etc. It should be noted that every factor has a different level of influence on the financial performance of SMEs.

All of the studies reviewed above explore different factors that determine financial performance of SMEs in the context of different countries. Current study has employed three most important factors including corporate governance, human resource capacity and access to financing. There is a scarcity of studies investigating financial performance of SMEs in Saudi Arabia. This study has been carried out to fill this gap.

Model, Methodology and Data:

The model was derived from previous studies such as Arshad et al. (2017) and Noor et al. (2019) etc.



In addition, multiple linear regression model has been used to analyze the effect of independent variables including corporate governance, human resource capacity & access to financing on the financial performance of Saudi SMEs.

$$FP = \alpha + \beta_1 CG + \beta_2 HR + \beta_3 AF + \varepsilon$$

Where:

FP – is the financial performance of SMEs.

β_1 – is the co-efficient of corporate governance.

β_2 – is the co-efficient of human resource.

β_3 – is the coefficient of access to financing.

CG – the value of corporate governance.

HR – the value of the human resource.

AF – the value of access to financing.

ε – error or random term.

α – constant.

Corporate Governance (CG):

Corporate governance has been defined in several ways. According to Capital Market Authority of the Kingdom of Saudi Arabia “Corporate governance is a framework that determines the rights and responsibilities among the

various parties such as the managers, board of directors, shareholders and other stakeholders in the company". According to Investopedia: "Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of many stakeholders in a company such as shareholders, senior management executives, customers, suppliers, financiers, government and society".

Human Resource Capacity (HR):

Grote and Mullen (2000) define human resource capacity as "the development of knowledge, skills and attitudes in individuals and groups of people relevant to the design, development, management and maintenance of locally meaningful institutional and operational infrastructures and processes". "Human Resource Development (HRD) is a framework to help employees develop their personal and organizational skills, knowledge and abilities. Human resource development includes opportunities such as employee training, employee career development, performance management and development, coaching, mentoring, succession planning, key employee identification, study assistance and organization development" Ladler (1969). According to Werner and DeSimone (2006), "human resource development is a set of systematic and planned activities designed by an organization to provide its members with the opportunities to learn necessary skills to meet current and future job demands".

Access to Financing (AF):

Access to finance is essential for the survival and growth of any business enterprise. According to Kipilyango (2012), "access to finance is the ability of individuals or institutions to obtain financial services, including credit, deposits, payments, insurance and other risk management services".

Financial Performance (FP):

Financial performance can be measured in terms of survival, growth, competitiveness and success. In addition, metrics based on financial performance include return on investment, costs, sales growth and profit margin. Will Kenton defines financial performance as "a subjective measure of how well a company is able to use assets from its core business and generate revenue."

Research Hypotheses:

The study intends to see the effect of corporate governance, the effect of human resource capacity and the influence of access to financing on the financial performance of SMEs in the Kingdom of Saudi Arabia. The following hypotheses have been derived from the above theoretical framework:

H1: There is a positive effect of CG on the FP of SMEs.

H2: There is a positive effect of HR on the FP of SMEs.

H3: There is a positive effect of AF on the FP of SMEs.

Data Collection Method:

A questionnaire was developed and used to gather the primary data in two languages: English and Arabic to collect the information. The questionnaire consisted of four parts. The first part consisted of demographic information of the respondents. The other three parts are related to factors affecting the financial performance of SMEs in the Kingdom of Saudi Arabia including corporate governance (CG), human resources capacity (HR) and access to finance (AF). These last three parts consisted of 15 questions to measure the three determinants of the financial performance of SMEs using a 5-point Likert scale anchored by strongly agree to strongly disagree. A total of 200 questionnaires were distributed to the SMEs management team in hard copy and soft copy. Only 150 responses were collected and filled up completely.

Econometric Analysis Technique:

The collected data using questionnaires was encoded before the collected data was entered into the computer. The data were cleaned to make sure that the information obtained was complete. Both descriptive and inferential statistical analysis techniques were used by the study. In order to analyze the demographic profile of the participants, descriptive statistics were employed. Multiple regression has been carried out to analyze the effect of independent variables on the dependent variable. Factor analysis helps in reducing the dimensions to identify the components. IBM SPSS Statistics 26 was used to analyze the collected data. The data are presented using the table and figures.

Results and Findings:

A total of 200 sets of questionnaires were distributed to the respondents, but only 150 answers were received; this interprets a response rate of 75%. However, only 125 questionnaires were used for analysis, it means 62.5% of responses are usable for analysis. 25 questionnaires were rejected due To the respondents were not from the SMEs

category. These 25 respondents belonged to companies which have more than 250 employees; according to Saudi SMEs' rules and regulations, SMEs do not exceed 249 employees. Based on these assurances from famous researchers, a 62.5% response rate is appropriate for the study. IBM SPSS Statistics 26 was used to analyze the primary data.

Descriptive Analysis:

Descriptive analysis shows that out of 125 respondents, 97.6% of the respondents were males and the remaining 2.40% were females. From those respondents 50.4% were aged between 21-35 years, 40% were between 36-50 years and 8.8% were aged between 51-60 years. The result of position of the respondents shows that 24% of them were top management level while 44.8% were in middle management and 20.8% were in supervisory level. Moreover, level of education indicates that majority of respondents had attained college and post graduate close to 95%. In addition, 69.6% of employees had been working for 9 to 11 years and more than 11 years. Finally, demographic results give accurate information that is supported to find out the best findings.

Data is nearly symmetrical if skewness is between - 0.5 to 0.5. According to our results skewness for all our variables is within this range, so we can safely conclude that the data is nearly normally distributed. Values of Kurtosis less than 3 means that data are clustered around the mean with a thick tail. According to the results in table (1), Kurtosis values for all variables is close to zero which means most data is normally distributed and is clustered around the mean.

Table (1): Descriptive Analysis of Variables

	FP	CG	HR	AF
Mean	4.2432	4.3240	4.0040	3.7616
5% Trimmed Mean	4.2569	4.3594	4.0115	3.7444
Median	4.2000	4.2500	4.0000	3.8000
Variance	.196	.331	.373	.263
Std. Deviation	.44256	.57504	.61108	.51286
Minimum	2.80	2.50	2.67	2.80
Maximum	5.00	5.00	5.00	5.00
Range	2.20	2.50	2.33	2.20
Interquartile Range	.60	1.00	1.00	.60
Skewness	-.437	-.491	.070	.398
Kurtosis	.355	-.219	-.837	.101

Financial Performance: there are some questions related to financial performance of the SMEs. The respondents were requested to give their opinion on a five Likert scale. On the first statement, "We have superior firm performance"; a majority of 92.8% agreed on the statement. 87.2% of respondents agreed on second statement, "We have competitive advantage over our competitors". 86.4% of them agreed on the third statement "Our company is highly profitable as compared to our competitors." Moreover, 96.8% of these respondents agreed on the fourth statement, "Information and communication skills are effectively affecting our business performance positively". And the last statement, "The business has experienced an increase in total revenue over the last few years" was agreed by 94.4% of the all respondents. Finally, the results of all these statements show great effects on the financial performance of SMEs.

Corporate Governance: this is the first independent factor of the research study. Corporate governance in the SMEs sector aims to enhance the role and responsibilities of owners, members of the board of directors and executive departments in order to strengthening the financial performance of companies, raise the level of transparency, and reducing potential risks that the company may face later. The survey results are presented as follows:

Corporate governance contains some statements. The respondents were requested to give their opinions based on Likert scale. 85.6% of all respondents agreed with the statement: "Audit committee focuses on improving the company's performance and competitiveness". 87.2% of them agreed with the second statement: "The composition of the board of our firm is a balance of executive and non-executive directors of diverse skills or expertise." Similarly, 90.4% respondents agreed with the third statement: "The effective use of committees improve the quality and efficiency of the board responsibilities and mandates are clearly defined", and 93.6% respondents agreed with the last statement: "Corporate governance has stipulated proper bookkeeping and ensures that the financial accounts and books are audited on a regular basis." The results of all these statements indicate good financial performance.

Human Resource Capacity: this is the second independent factor of the research study. Human resources capacity concept is closely related to training, education, and human resource development. In common sense it may refer to improvements in the ability of all employees to perform appropriate tasks within a broader set of performance standards for the organization to improve the performance of the company. Survey results are presented as follows.

Human resource capacity variable contains some statements. The respondents were requested to provide their own opinion based on five point Likert scale. 73.6% of them agreed with the first statement: "The HR departments

ensures that employees are conversant with new trends in technology adopted in the market." 69.6% of the respondents agreed with the second statement: "Finance and accounting department are the most understaffed". 68.8% of those respondents agreed with the statement: "Accountants will in most cases play roles of administration, human resources and even operations". 76.8% of them agreed with the statement: "The company has put in place staff training and development programs". 68.8% of the respondents agreed with the statement: "The company hires the best talent in the market and it has resources to retain them". 88.00% to those who agreed with last the statement: "Well-trained and experienced accountants help improve the financial performance of the company." The results imply that all these statements in determining the financial performance of SMEs.

Access to Finance: this is the third independent factor of the research study. Access to finance is the key to the success of SMEs. Entrepreneurs emphasize innovation, improving efficiency, expanding into new markets, and creating millions of jobs. The results of the survey are presented below:

Access to finance also consists of some statements. The respondents were requested to indicate their opinion based on a five- point Likert scale. About 90% of respondents agreed with the first statement: "Access to financing is important for the growth of SMEs", and this access to finance is considered an important determinant of financial performance. A total of 53.2% of them agreed with the statement: "Bank loans are easily accessible and available for use to start up a business", and 56.8% of them agreed with the statement: "Total credit finance accessed through semi-formal financial sectors has positively affected my business." Only 52.8% of them agreed with the statement: "Most financial institutions are reluctant to provide long-term credit to SMEs". A total of 68% agreed with the last statement: "Reduction on the cost of finance, that is interest rates, application fees, loan insurance premium and legal fees, etc. has made it easy for SMEs to access financing". The results imply that all these statements determine the financial performance of SMEs.

Correlation Analysis:

Correlation analysis has been carried out between all variables: Human Resource Capacity, Corporate Governance, Access to Financing and financial performance. Correlation analysis results show that all independent variables have a positive correlation with financial performance with corporate governance at 0.63, human resource capacity at 0.33 and access to finance at 0.3 as shown in Table (2).

Table (2): Correlation between Variables

		FP	CG	HR	AF
FP	Pearson Correlation	1	.631**	.330**	.299**
	Sig. (2-tailed)		.000	.000	.001
CG	Pearson Correlation	.631**	1	.578**	.238**
	Sig. (2-tailed)	.000		.000	.008
HR	Pearson Correlation	.330**	.578**	1	.371**
	Sig. (2-tailed)	.000	.000		.000
AF	Pearson Correlation	.299**	.238**	.371**	1
	Sig. (2-tailed)	.001	.008	.000	

** Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis:

The result from regression analysis is used to determine the significance of the variables between independent variables (Corporate Governance, Human Resource Capacity and Access to Financing) and dependent variable (Financial Performance). The R square value is 0.429 which indicates that 42.9 percent variation in the financial performance is explained by the changes of all independent variables. The model is overall significant with an F-value of 30.34 with a 0.00 p-value, so we reject the null hypothesis of all coefficients to be zero.

Table (3): Multicollinearity Test

Model	t	Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	6.203	.000	
	CG	7.763	.000	1.502
	HR	-1.320	.189	1.643
	AF	2.518	.013	1.161

a. Dependent Variable: FP

Multi-collinearity test is conducted since R- Square is 0.429 to check whether there is multicollinearity or not in the data. The VIF (Variance Inflation Factor) values detect the severity of multi-collinearity as shown in Table 3. The results show that VIF for all independent variables is less than 5 where CG = 1.502, HR = 1.643 and AF = 1.161. There is a common general rule for multi-collinearity when VIF is 5. Whereas all VIF for independent variables are less than 5. Therefore, there is no evidence of severe multi-collinearities. The solution to the multi-collinearity

problem of this study is to do nothing because as long as some of the coefficients in the regression model are statistically significant, it is an indication that the multi-collinearity is not that serious.

Table (4) reproduces the results of regression coefficients of the independent variables which shows that CG, HR, and AF affect FP positively and significantly.

Table (4): Coefficients results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.801	.290		6.203	.000
	CG	.503	.065	.653	7.763	.000
	HR	.084	.044	.116	1.910	.091
	AF	.161	.064	.186	2.518	.013

Dependent Variable: FP

The column Standardized Coefficients Beta indicates that the coefficient of corporate governance is highest at 0.653 which is significant at 5%. After that, is followed by access to financing at 0.186 which is also significant at 5%. The last variable human resource contains a beta value of 0.116 and which indicates that it is significant at 10%. These variables have an influence on financial performance of SMEs in the Kingdom of Saudi Arabia. Hence, all hypotheses are supported.

The results agree with previous studies such as Nakhaima (2016), Hakima et al. (2019) and Petra (2005) which show a positive effect of corporate governance on the financial performance of SMEs. The result findings also agreed with previous studies including Nakhaima (2016) and Khan et al. (2020), which show a positive effect of human resource capacity on the financial performance of the SMEs. The result findings also agreed with previous studies and researches such as Nakhaima (2016), Njagi et al. (2017) and Macharia (2012), which have proved that there is a positive effect of access to finance on the financial performance of the SMEs.

Factor Analysis:

“The basic idea of factor analysis is that by studying the internal structure of the variable correlation matrix or covariance matrix, some random variables should be discovered which are used to describe the relationship between multiple variables. Then group the variables according to the level of relevance among them, and make sure that the correlation between variables in the same group is high and the correlation between groups is low. So, each type of variable actually represents a basic structure, i.e., the common factor. These common factors are the basic structures which that influence the correlation between the original variables.” There are three independent variables; CG, HR and AF. The following tables show the relationship among these:

This research study applies the KMO test and Bartlett sphericity test method. The value of KMO statistics ranges between 0 and 1 whereas 0.5 is used as the cut-off point for data acceptance. The test result found that the KMO value is 0.685, which means that the original factors can be used for variables with a strong correlation. The Bartlett sphericity test statistical value is larger than 752.46 which is significant at 5 percent. It indicates that the data are relevant and can accept the results of factor analysis. As shown in Table (5):

Table (5): KMO test and Bartlett Sphericity Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.685
Bartlett's Test of Sphericity	Approx. Chi-Square	752.456
	df	120
	Sig.	.000

Common Factor Extraction:

The results of factor analysis identified 15 linear components within the data set and every component is considered a factor. In the panel of the table: “rotation sums of squared loadings”, the eigenvalues of the factors after rotation are displayed. The variance contribution rates of the first three main components are 25.398%, 14.426% and 12.090% respectively. The rotation has the influence of optimizing the factor structure. Before rotation, the first factor accounts for considerably more variance than the remaining two (28.739% compared to 14.593% and 8.582%), but after extraction, it accounts for only 25.398% of the variance (compared to 14.426% and 12.090%, respectively).

Table (6): Rotated Component Matrix^a

	Component		
	1	2	3
Respondents	.284		-.436
X1	.766		
X2	.472	.367	
X3	.739		
X4	.688		
X5	.496	.511	
X6		.220	.585
X7	.331		.675
X8	.788		
X9	.733		.360
X10	.666		.238
X11		.643	.357
X12	.342	.661	
X13		.757	.200
X14		.280	.694
X15		.513	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged in 7 iterations.

Table (6) shows that the varimax method tries to redistribute factor loading such that each variable measures precisely one-factor ideal scenario, so basically we get in rotated component one factor ideal scenario that is each variable will load meaningfully on one and one factor. Rotation is identified for simple interpretable factors to make loading clear and create a simple structure as well as this allows us to give some very interesting results. Therefore, whichever variables occur in the first factor has loaded meaning over that particular factor likewise factor two and factor three. There are several things to consider about the format of this matrix. First, factor loadings less than 0.20 have not been displayed because we asked for these loadings to be suppressed using the option. Second, the variables are listed in the order of size of their factor loadings.

Finally, when conducting a comprehensive assessment of the effecting factors of SMEs, F1 (corporate governance factor) is considered the main effecting factor, F2 (human resource capacity factor) and F3 (access to finance factor) also play important roles in the overall outcome.

Summary, Conclusions and Recommendations:

The research has aimed to measure the effect of some factors affecting the financial performance of SMEs in the Kingdom of Saudi Arabia. Based on the survey results, the study found that all independent variables, corporate governance, human resource capacity and access to finance do have a significant effect on the financial performance of SMEs in Saudi Arabia.

The majority of the respondents agreed that corporate governance, human resource capacity and access to financing affect the financial performance of SMEs. Moreover, based on the correlation analysis, all variables have a positive relationship with corporate governance at 0.631, human resource capacity at 0.330 and access to finance at 0.3. Therefore, we can say that any positive change in any factors of corporate governance, human resource and access to finance is associated with the financial performance of SMEs. Regression analysis results show that the R-square value is 0.429 which indicates that 42.9 percent changes in the financial performance are explained by the changes of all independent variables as well as multiple linear regression model coefficient analysis results show that corporate governance has the highest beta of 0.653 followed by access to financing with a beta of 0.186 and human resource with a beta value of 0.116. All these variables have a positive and significant influence on the financial performance of SMEs in the Kingdom of Saudi Arabia.

Multi-collinearity test is conducted to measure whether there is multicollinearity or not in the data. The result shows that there are no severe multi-collinearities. In addition, factor analysis was conducted, KMO and Bartlett sphericity test results show that the original factors can be used as variables with a strong correlation because the result of the KMO test is 0.69, so the data can be used for principal component analysis. It indicates that the data are relevant and can accept the results of factor analysis. Also, common factor extraction results show that three selected common factors with eigenvalues equal to 1 explain 51.91% of whole variance. Moreover, Component Score Coefficient Matrix tells that conducting a comprehensive assessment of the effecting factors of SMEs, the corporate governance factor is considered the main effecting factor with a weighted score of 1.25, followed by the

human resource capacity factor with a weighted score of 1.16 and access to finance factor with weighted score 0.61 play important roles in the overall outcome.

The results agree with previous studies such as Nakhaima (2016), Hakima et al. (2019) and Petra (2005) which show a positive effect of corporate governance on the financial performance of SMEs. The result findings also agreed with previous studies including Nakhaima (2016), and Khan et al. (2020), which show a positive effect of human resource capacity on the financial performance of SMEs. The result findings also agreed with previous studies and research such as Nakhaima (2016), Njagi et al. (2017), and Macharia (2012), which have proved that there is a positive effect of access to finance on the financial performance of SMEs.

The main limitation of the study was the lack of cooperation from the owners because the study required the collection of primary data from them. Therefore, to overcome this challenge, the researcher uses a combination of online as well as in-person questionnaires to get a higher response rate.

Recommendations:

It has been noticed that there is a dramatic increase in the number of coffee shops and restaurant businesses in the Kingdom of Saudi Arabia. Therefore, further research should be performed on the specific sector such as coffee shop, restaurant related to the financial performance of Saudi SMEs. The study recommends a direct follow-up by managers and resource management knowledge of the basics of accounting and all professional departments. In addition, the human resources department must give training to the employee in a positive way and cooperate with all departments.

During survey it is noticed that there are not a sufficient number of financial institutions that provide long-term loans to SMEs. Therefore, the study recommends establishing more financial institutions in order to increase and support SMEs. Human resource capability in SMEs should provide some impetus, for example, training, compensation, recognition, freedom, appreciation, promotion, recognition, flexibility, thanks, advancement and job security considering the ultimate goal of improving workers' performance.

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