

**Effects of External and Internal success factors on
SMEs performance in emerging economies: Evidence
from Saudi Arabia**

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Abstract

Purpose -The aim of this study's to examine the influence of external and internal factors that are claimed by the literature to affect Small and Medium Enterprises SMEs' performance. The literature is relatively rich in this regard with several published researches, but the contribution of the current study is primarily related to the emerging economies context in general and the Saudi Arabian SMEs sector in particular.

Methodology / design / approach – The study uses a quantitative approach based on a structured questionnaire that is administered to a convenient sample consisting of 142 SMEs.

Findings – The findings revealed that all of the six proposed factors (independent variables) are significantly influencing the SMEs performance (dependent variable). Legal & Administrative Factors (LAF)is found to have the strongest relationship with performance.

Research Limitation / future research recommendations –The study is applied in Saudi Arabia, therefore the results generalisation should be treated with caution. Arab, Muslim, and other conservative societies are likely to generalise the findings of this study to their own context. Future studies are encouraged to extend this study to other countries, use qualitative research methods to induce knowledge, and/or examine the mediating / moderating effect of other variables.

Practical implications –Several implications for practitioners and entrepreneurs emerge. The study elects a group of success factors that the literature suggests and puts them to empirical examination to assess their validity. The study is conducted in Saudi Arabia, taking into consideration the aspects that influence small enterprises' success.

Originality / value – Numerous studies have contributed to the development of SMEs conceptualisation, and many studies have examined the success and failure factors that affect SMEs. Having said that, noticeable scarcity of studies examining SMEs' success factors in developing countries and in Saudi Arabia in particular elaborates the contribution and value of the study.

Keywords SMEs; Performance; Internal & External Success Factors; Entrepreneurship; Saudi Arabia

Paper type Research Paper.

ملخص

الغرض - تهدف هذه الدراسة إلى دراسة تأثير العوامل الخارجية والداخلية التي يزعم أنها تؤثر على أداء الشركات الصغيرة والمتوسطة. الأسباب غنية نسبياً في هذا الصدد مع العديد من الأبحاث المنشورة، ولكن مساهمة الدراسة الحالية تتعلق بشكل أساسي بسياق الاقتصادات الناشئة بشكل عام وقطاع الشركات الصغيرة والمتوسطة في المملكة العربية السعودية على وجه الخصوص.

المنهجية / التصميم / المنهج - تستخدم الدراسة منهجاً كمياً يعتمد على استبيان منظم يتم إدارته على عينة ملائمة تتكون من 142 شركة صغيرة ومتوسطة.

النتائج - كشفت النتائج أن جميع العوامل الستة المقترحة (المتغيرات المستقلة) تؤثر بشكل كبير على أداء الشركات الصغيرة والمتوسطة (المتغير التابع). تم العثور على العوامل القانونية والإدارية (LAF) لديها أقوى علاقة مع الأداء.

الحد من البحث / توصيات البحوث المستقبلية - يتم تطبيق الدراسة في المملكة العربية السعودية، لذلك يجب تعميم نتائج البحث بحذر. من المرجح أن تقوم المجتمعات العربية والإسلامية والمجتمعات المحافظة الأخرى بتعميم نتائج هذه الدراسة على سياقها الخاص. يتم تشجيع الدراسات المستقبلية على مد هذه الدراسة إلى بلدان أخرى، واستخدام طرق البحث النوعي للبحث على المعرفة، و / أو دراسة التأثير الوسيط / المتوسط للمتغيرات الأخرى.

الآثار العملية - تظهر آثار متعشة على الممارسين ورجال الأعمال. تنتخب الدراسة مجموعة من عوامل النجاح التي تقترحها الأسباب وتضعها في الامتحان التجريبي لتقييم صلاحيتها. تم إجراء الدراسة في المملكة العربية السعودية، مع مراعاة الجوانب التي تؤثر على نجاح المشروعات الصغيرة.

الأصالة / القيمة - ساهمت العديد من الدراسات في تطوير مفهوم الشركات الصغيرة والمتوسطة، وشرس العديد من الدراسات عوامل النجاح والفشل التي تؤثر على الشركات الصغيرة والمتوسطة. وبعد قولي هذا، فإن ندرة الدراسات التي تبحث عوامل نجاح الشركات الصغيرة والمتوسطة في البلدان النامية والمملكة العربية السعودية على وجه الخصوص توضح مساهمة وقيمة الدراسة. الكلمات المفتاحية: أداء؛ عوامل النجاح الداخلية والخارجية؛ ريادة الأعمال. المملكة العربية السعودية.

1. Introduction

Factors that affect the success or failure of Small and Medium Enterprises (SMEs) and entrepreneurs have drawn attention of scholars and practitioners over the past (Baporika et al, 2016; Keeble *et al.*, 1992). The SMEs sector contributes to the economic growth and development in any given country, and to the global economy as a whole in terms of GDP, job creation, combating unemployment, and business diversification. Nevertheless, examining the performance of SMEs reveals that there exists a variation in defining these factors.

Several factors contribute to the success or failure of SMEs. Apparently, there is no consensus on the exact manifest of factors. This is due to the differences in geo-demographic characteristics of any given SME, for example, human capital; knowledge & expertise; internal & external

market factors such as attaining finance & grants; governmental support; the uncertainty towards external environment; in addition to gender-specific attributes that may affect the success and prosperity of a SME.

2. Overview of Saudi Arabian Small and Medium Enterprise Business Sector

Saudi SMEs are accounted for about 85% of the national registered companies, and 45% of employment. Therefore, SMEs play a significant role in Saudi's future plans. SMEs are estimated to contribute about one-third of the country's GDP 33%, higher than several other GCC countries (www.jeg.org.sa).

With lower oil prices, and the endeavours to diversify the Saudi economy, it is increasingly important to enhance the private sector's contribution to GDP by advancing the SME sector. Nevertheless, even with the efforts to improve the quality of the business environment, Saudi SMEs suffer from complicated managerial and regulatory measures, weak performance, poor abilities in talent acquisition, and difficulty to raise fund. Saudi SMEs raise only (5%) of the total funding, which is a small proportion compared to global rates (www.monshaat.gov.sa). This is due to several reasons, including:

- 1. The lack of available and trustworthy data about these enterprises,**
- 2. The lack of legal framework that allows for collateral registry and legal enforcement in case of non-payment,**
- 3. Most SMEs lack audited accounts, which in turn burden lenders with greater resources and time in serving these SMEs,**
- 4. More than 80% of SMEs are single owner entities, making it difficult to differentiate between private assets and the company's assets.**

The former reasons pinpoint why funding SMEs in Saudi is a risky business, which in turn highlights the essential need for policies that communicate assurance and trust to the lenders. Literature Overview

- **Success factors**

The literature of SMEs includes a vast amount of publications. Nevertheless, a great discrepancy as to which variables lead to the success of SMEs indicates that there is currently no comprehensive theory of success factors of SMEs performance (Lussier & Halabi, 2010; Halabi & Lussier, 2014; Lussier *et al.*, 2016). Models of success factors date back to the late 1980s when scholars such as Reynolds & Miller (1989), Cooper *et al.*, (1990), and Lussier (1995) offered valuable contributions to this research stream.

Robert Lussier's model (1995; 1996a;b); Lussier & Pfeifer (2000) has been a robust model of SMEs success factors as it was validated in several countries around the world, such as USA; Croatia; Israel; and Chile. The model was based on detailed analysis of relevant literature in order to understand the reasons behind the success or failure of business ventures. Lussier's model lists as much as ten (10) variables that contribute to the success or failure of SMEs:

- | | |
|------------------------------|--|
| 6. Education; | 1. Capital; |
| 7. Staffing; | 2. Record Keeping & financial control; |
| 8. Product life cycle stage; | 3. Business experience; |
| 9. Partners; and | 4. Management experience; |
| 10. Marketing knowledge. | 5. Business plan; |

Other studies examined the success factors of enterprises in terms of demographic characteristics of the entrepreneur i.e. gender (e.g. Elenurm

& Vaino, 2011; Ramos *et al.*, 2014; Nneka 2015). Hasan & Almubarak, (2016) elects much as eight (8) factors in their empirical investigation of the factors influencing women entrepreneurs' success in Bahrain. These factors have been categorised by Shane (2003); and Hasan & Almubarak, (2016) into internal and external factors and included:

- 1. Entrepreneurial orientation (Internal);**
- 2. Human capital (Internal);**
- 3. Entrepreneur goal & motivations (Internal);**
- 4. Industry characteristics (External);**
- 5. Economic factors (External);**
- 6. Socio-cultural factors (External);**
- 7. Legal & administrative factors (External); and**
- 8. Opportunity recognition (mediator variable).**

Furthermore, Chiun Lo *et al.*, (2016) offer five (5) factors that lead to successful performance of Malaysian SMEs, these are:

- | | |
|--|-----------------------------------|
| 4. Technology orientation; | 1. Top management support; |
| and | 2. Customer focus; |
| 5. Entrepreneurial orientation. | 3. Employee orientation; |

Other studies have suggested rather behavioural and psychological approach to investigate factors influencing SMEs performance (Hankinson *et al.*, 1997; Baum *et al.*, 2001; Gomezelj & Kusce, 2013). Personal characteristics (traits of the entrepreneur) are claimed to influence the success and prosperity of the enterprise. Factors such as the founding reasons of the business and personality traits of the owner have been examined by Gomezelj & Kusce (2013). Additionally, they also

identified several environmental factors (e.g. social; cultural; political; and economic) that contribute to the success or failure of the SMEs.

- **Organisational performance**

Organisational Performance (OP) is an important concept that has been put into investigation for several decades. Improving organisational performance is the ultimate goal for managers. For scholars, investigating different ways to enhance organisational performance has been an important research objective. OP can simply be classified into financial and non-financial performance (Perez & Canino, 2009; Gomezelj & Kusce, 2013; Chiun Lo *et al.*, 2016). While financial indicators of business performance have gained greater consensus among academics and practitioners in terms of their ability to reflect an organisation's success, yet in the SMEs context, it is unfair to use only financial indicators to judge a business's success (Gomezelj & Kusce, 2013). The reason is that most of young SMEs in their early years of operations achieve poor financial results due to paying high interest rates and bearing higher costs. However, that does not mean they are failures (Perez & Canino, 2009).

Gomezelj & Kusce (2013) simply put success of the SME as the achievement of goals and objectives as they were set. They further categorize the performance of the business into two (2) main groups: the business performance, and the personal performance and satisfaction of the entrepreneur. The latter is rather a 'softer' indicator of success and includes personal satisfaction at work; customer satisfaction; independence; and life style. The former refer to the classic financial indicators of OP.

More recent studies, such as Chiun Lo *et al.*, (2016, pp. 372) identified organisational performance as "the concept that measures a firm's position in the market place and the firm's ability in meeting its stakeholders' needs". They also refer to (Slacket *al.*, 2010) notion of organisational performance as the degree to which the operation fulfils the performance objectives (primary measures), and meets the needs of the customers (secondary measures). Financial indicators of business performance have traditionally included financial ratios such as Return on Assets (ROA); Return on Investment (ROI); and Return on Equity (ROE).Kaplan & Norton have suggested as early as (1996) that a more balanced approach to assess organisational performance should be followed by including both financial and non-financial performance measures (i.e. Balanced Scorecard methodology). The non-financial measures currently include customer base; internal business processes; and learning & growth measures.

The study of Hasan & Almubarak (2016) has followed a rather balanced approach to measure female entrepreneurs' performance. Financial measures included sales and profits growth, whereas non-financial measures focused on indicators such as increased employees numbers; period of operation (length of survival);the capability of supplying quality products; new product development ability; labour productivity; and CSR (Corporate Social Responsibility).Prior studies noted that the success features differ among different economies (Benzing *et al.*, 2009; Lewrick *et al.*, 2011; Zamberi & Xavier, 2012; Lussier *et al.*, 2016).

Accordingly, the current study aims to extend prior examination of success factors of SMEs into a new context that has been under

researched. It is therefore the aim of this study to examine the influence of internal and external success factors on SMEs performance. These factors as categorised by Hasan & Almubarak, (2016) are of particular importance to this study, and there for are hand-picked from the vast relevant literature for the following reasons:

1. These factors have already been developed and validated by earlier studies (i.e. Shane, 2003, Gomezelj & Kusce (2013), and Hasan & Almubarak, 2016),
2. As explained in the subsequent conceptual framework section, the dependant variable of SME's performance is claimed by various literature streams to be influenced by a wide array of factors that cannot be all included in this study due to its limitations. Therefore electing a set of variables that cover the internal and external environmental forces is a rather useful approach to answering the study's question (i.e. How do the claimed internal and external success factors influence the performance of SMEs in Saudi Arabia?").
3. The Saudi context is similar in many facets to Bahrain context where the earlier study of Hasan & Almubarak, (2016) was conducted; which in turn gives the author the opportunity to compare and contrast her findings to those of the earlier study in order to support and enrich existing knowledge, or modify and suggest new insights,
4. The elected six factors generically represent most of the success factors noted within relevant literature. For example the 'internal' Human Capital (HC) factor that this study adopts as one of the internal success factors clearly covers other relevant factors illustrated individually by other scholars such as: education, experience (management experience, business experience), marketing knowledge.

Similarly, the 'external' Legal & administrative factors (LAF) encompass the political, economic, regulatory and legislative forces that influence SMEs performance.

3. Research Question

This study is primarily concerned with answering the question "How do the claimed internal and external success factors influence the performance of SMEs in Saudi Arabia?"

In order to provide a sound answer to this question, a thorough analysis of relevant literature is undertaken to identify the study's independent variables (success factors). Business success criteria are several, but for the purpose of the current empirical investigation, financial measures in the form of sales and profits growth, whereas non-financial measures focused on indicators such as increased employees numbers; period of operation (length of survival); the capability of supplying quality products; new product development ability; labour productivity; and CSR (Corporate Social Responsibility).

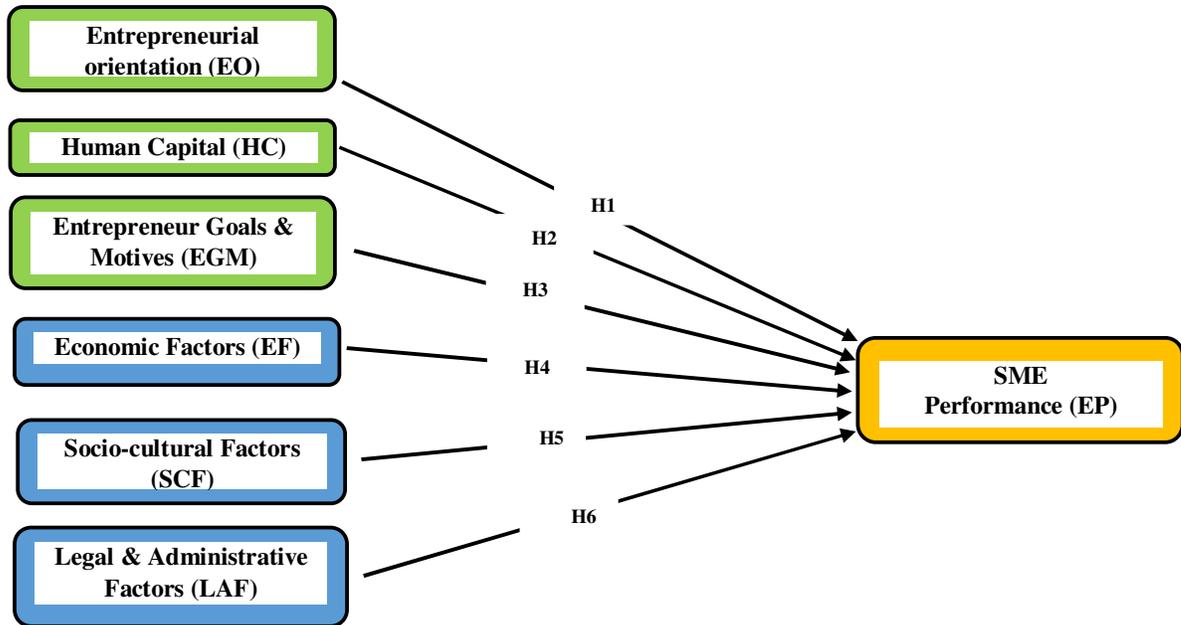
4. Conceptual Framework

The study adopts the former theoretical models of Shane (2003), and Hasan & Almubarak (2016) with some modifications. In this regard, six (6) independent variables (success factors) are suggested to positively influence the SME performance (dependent variable) (Figure 1), these factors are categorised into internal factors (i.e. EO, HC, EGM) and external factors (i.e. EF, SCF, and LAF).

- 1. Entrepreneurial orientation (EO);**
- 2. Human capital (HC);**
- 3. Entrepreneur goal & motivations (EGM);**

4. Economic factors (EF);
5. Socio-cultural factors (SCF), and
6. Legal & administrative factors (LAF).

Figure 1: Conceptual Framework



5. Research Hypotheses

The study proposes six (6) hypotheses as discussed below:

Entrepreneurial Orientation and SMEs Performance: entrepreneurial orientation could be referred to as "the extent to which a business owner is inclined to take business-related risks, to favour change and innovation to obtain competitive advantage for the SME, and to compete aggressively with other firms" (Hasan & Almubarak, 2016, p.85). Shane (2003) defined entrepreneurial orientation as the ability of the entrepreneur to discover and use opportunities associated with entrepreneurial performance, which in turn varies amongst business owners and is based on the distinct conditions concerning risk

acceptance. Risk averse individuals are less likely to exploit business opportunities that might bear risks. On the contrary, entrepreneurs who are more likely to take risks to capture business opportunities are more likely to succeed as a result of gaining competitive advantages; adopting innovative and creative solutions; and in turn achieve improved business performance. Consequently, the following hypothesis is put forward for validation:

H1: There is a significant relationship between Entrepreneurial Orientation and SMEs performance

Human Capital and SMEs Performance: human capital is an important organisational resource. Based on education and experience of workers, SMEs gain significant knowledge that affects different aspects of business performance. Issues such as identifying and taking advantage of opportunities; developing core competencies and sustaining competitive advantages are few examples of how valuable human capital could 'make or break' the successful implementation of plans that aim to improve business performance and achieve success. As a result, the next proposition is formulated:

H2: There is a significant relationship between Human Capital and SMEs performance

Enterprise Goals & Motives and SMEs performance: While goals could be ascribed as desired results that are gained from behaving in a reasoned way, motivation could be defined as "the process by which goal-directed activities are instigated and sustained" (Teoh & Chong, 2007; Hasan & Almubarak, 2016). Motivations of entrepreneurs who start up their businesses are generally classified into two groups: Negative and Positive

motives, or Push and Pull factors (Sadi & Al-Gazali, 2012; Hasan & Almubarak, 2016).

The Push (negative) factors refer to those essential factors (motives) making continuing operations for the entrepreneur is a commitment. Those motives include unemployment; frustration of previous job; financial motives; and flexible work arrangements.

The other group of Pull (positive) motives include achieving aspiration and ambitions; freedom of choice; independence; self-fulfilment; self-achievement; entrepreneurial drive & desire; social status & power; and the need for autonomy (self-sufficiency). The current study aims to identify the types of motives that drive SMEs' owners, and to examine the influence of these motives on SME performance. Therefore, the next proposition is formulated:

H3: There is a significant relationship between the Enterprise Goals & Motives and SMEs performance

Economic Factors and SMEs performance: economic factors refer to the external market conditions that affect the business; and the internal factors related to financing and raising necessary funds for the business (Ekype *et al.*, 2010). Wube (2010) and Hasan & Almubarak (2016) note that female entrepreneurs encounter several economic obstacles in the form accessing credit and raising necessary funds for their start-ups compared to their male counterparts, particularly in developing economies compared to developed ones. This in turn affect the business performance particularly in its early stages. Accordingly, the following

hypothesis is proposed to examine economic factors influence on SME performance:

H4: There is a significant relationship between Economic factors and SMEs performance

Socio-cultural Factors and SMEs performance: Social relationships are argued to be critical for the success of entrepreneurial start-ups as they affect the prosperity and growth of the business. These relationships are said to enable entrepreneurs to identify and utilize market opportunities; gather valuable information; mobilize resources; and communicate with customers and vendors. Similarly, culture is also claimed to affect the SME as the perception of the society – that is based on its culture – towards SMEs, their ownership portfolio including the gender of the owner, in addition to other factors varying across developing and developed countries. This study assumes that the social and cultural factors surrounding Saudi SMEs will influence their performance. This is reflected in the subsequent proposition:

H5: There is a significant relationship between Socio-cultural factors and SMEs performance

Legal & Administrative Factors and SMEs performance: these factors include a wide array of issues related to the governmental policies; laws; and regulations that organise business, trade, and commerce within a particular market/country. Javadian & Singh, (2012) and Hasan & Almubarak (2016) categorise these factors into three (3) groups, which are: banking rules & regulations; tax laws; and labour laws. All of the three groups are claimed to significantly affect the performance of all types of businesses in general, and SMEs in particular. Hence the following hypothesis is put for attesting:

***H6:* There is a significant relationship between Legal & Administrative factors and SMEs performance**

Design & Methodology

This research follows a quantitative methodology to test its six (6) hypotheses and consequently contribute towards answering the research question that was stated earlier. The study used a structured questionnaire to collect empirical data from a convenient sample of the owners of SMEs established and operate in the region of Tabuk, northwest of Saudi Arabia. The instrument consisted of two sections, one belonging to the demographic characteristics of the respondents and their enterprises (e.g. gender; age; marital status; education; past expertise; business sector; age of the enterprise; start-up capital; and enterprise size in terms of number of employees). The second section of the questionnaire consisted of a 5-point Likert scale to measure the extent of agreement of respondents with a set of statements related to the study's conceptual model (32 statements). The available responses on the scale ranged from 1= strongly disagree, to 5= strongly agree, where the anchor point of the scale is 3= neutral.

All scales were adopted from previous studies, which validated them in either the context of developed economies, or developing economies. Specifically, the studies of Hasan & Almubarak (2016); Shane (2003); Covin & Slevin (1989); Bosma et al., (2004); Kuratko et al., (1997); Robichaud et al., (2001); Wube (2010); Teoh & Chong (2007); and Fatoki (2011) have been used in developing this study's scales.

For example, the 6-item scale of the EO (Entrepreneurial Orientation) variable was partly adopted from Covin & Slevin's (1989) study, which was widely used in several other research of EO due to its high levels of reliability and validity (Hasan & Almubarak, 2016). The 8-item scale of the HC (Human Capital) variable was partly adopted from the study of Bosma et al., (2004) which examined the variables of work and managerial experiences; education; and professional training. The 3-item scale of the EGM (Entrepreneur Goals & Motives) variable was operationalized and partly adopted from the motivation variables used in the studies of Kuratko et al., (1997); and Robichaud et al., (2001). The 4-item scale of the EF (Economic Factors) variable operationalization was partly taken from the study of Wube (2010) that focused on several economic factors such as: interest rates; market structure in terms of competition; market accessibility; capital & finance accessibility; and availability of production resources.

The 3-item scale of the SCF (social & Cultural Factor) variable was operationalized by adopting the Wube (2010); and Teoh & Chong (2007) scales that included several factors such as: the effect of social networks; the traditional values and norms; religions; and the struggles to embrace between home and work responsibilities. They also included the influence of parents' occupations; and the support from relatives and friend. The 2-item scale of the LAF (Legal & Administrative Factors) variable was operationalized by partly adopting the Wube (2010) study that included several factors such as governmental support; registration & establishment procedures;

ownership structure; accessibility to policy makers; labour market; and legislative bodies. Lastly, the operationalization of SME performance variable is partly derived from the studies of Bosma et al., (2004); Fatoki (2011); and Hasan & Almubarak (2016) using a 6-item scale.

Financial and non- financial measures of performance were used, where financial measures include sales and profitability growth. Non-financial measure include the growth in employees numbers; period of survival; the ability to offer higher quality commodities and services; the ability to offer newly developed commodities and services; employees productivity; and social responsibility.

To further evaluate the strength of the questionnaire and the used measures, in-depth interviews were conducted with seven(7) SME owners, and five (5) academics closely working with the SMEs industry literature. Valuable comments were received and the questionnaire was amended accordingly. Consequently, the questionnaire was electronically distributed on the E-mail system of the National Entrepreneurship Institute "RIYADAH" ([https:// www. riyadah. com.sa](https://www.riyadah.com.sa)). Riyadh is a governmental establishment that is responsible for incubating, financing, educating, counselling, and training of promising entrepreneurs with (10231) SMEs established across country to date, of which (638) where established in the North western region of Tabuk, and these particular SMEs were e-mailed the final version of the questionnaire. A total of 142 complete and useable questionnaire were submitted back, indicating a response rate of 23%.

In data analysis, the Statistical Package for Social Sciences (SPSS) ver. 22.0 has been employed, as well as Smart Partial Least Squares (PLS) ver. 2.0. PLS were used because they allow the complete research model to be tested just once (Ringle et al., 2005; Halawi & McCarthy, 2008; Chiun Lo et al., 2016). At first, SPSS descriptive statistics were employed to analyse respondents' demographic characteristics (Table1). Subsequently, PLS ver. (2.0), which employs path modelling (Chin, 1998; Tenenhaus et al., 2005; Wetzels et al., 2009) was used to measure the model as shown in (Figure 2). The analysis in PLS was twofold, one pertaining to the measurement model, while the other pertains to the structural model. The former involved the assessment of the reliability and validity of the measures, where reliability was assessed by examining the Composite Reliability (CR), and Cronbach's alpha (α) while validity was assessed in the form of convergent validity and discriminant validity. The latter: the structural model test was applied to test to hypothesised relationships between the study's independent and dependent variables.

6. Findings

- Demographic profile of respondents

Table 1 shows the demographic information of the 142 respondents. Male respondents counted for (55.6%) of the sample.

Table: 1 – Respondents' Demographic Outline

Demographic variable	Category	Frequency	Percentage
Gender	MALE	79	55.6
	FEMALE	63	44.4
INDUSTRY	SERVICE	75	52.8

	PRODUCTION	30	21.1
	DISTRIBUTION/AGENCY/ TRADE	37	26.1
ENTERPRISE AGE	LESS THAN 1 YEAR	63	44.4
	1-3 YEARS	44	31.0
	3-5 YEARS	15	10.6
	MORE THAN 5 YEARS	20	14.1
OWNER SOCIAL STATUS	SINGLE	24	16.9
	MARRIED	104	73.2
	WIDOWED	3	2.1
	DIVORCED	10	7.0
	PREFER NOT TO SAY	1	.7
OWNER AGE	21-30	43	30.3
	31-40	66	46.5
	41-50	29	20.4
	51-60	2	1.4
	OVER 70 YEARS OLD	2	1.4
OWNER EDUCATION	PRE UNIVERSITY EDUCATION	34	23.9
	UNIVERSITY EDUCATION	77	54.2
	POSTGRADUATE EDUCATION	27	19.0
	NOT EDUCATED	4	2.8
OWNERSHIP TYPE	SOLE OWNERSHIP (1 OWNER)	93	65.5
	CO-OWNERSHIP (2 OWNERS)	25	17.6
	CO-OWNERSHIP (3 OWNERS)	12	8.5
	CO-OWNERSHIP (4 OR MORE OWNERS)	12	8.5

More than half the respondents were service companies, and only (25%) of respondents were enterprises aged more than 3 years, indicating that the majority (75%) of the sample were SMEs less than 3 years of age.

Most of the owners (73.2%) were married, and (66.9%) aged between 31-50 years. (54.2%) had a university education, and (19%) had a postgraduate degree. (65.5%) of the sample were single owned SMEs, and (17.6%) were jointly owned by two owners.

- **Assessment of the Measurement Model**

As Table (2) depicts, in order to examine how measurements exhibit sufficient internal consistency, a measurement model is employed to assess construct and individual reliability, as well as discriminant and convergent validity.

Accordingly, confirmatory Factor Analysis (CFA) was conducted. Factor loadings have been employed to assess individual reliability. Carmaines & Zeller (1979) and Hair *et al.*, (2010, recommendations were followed, noting that factor loadings must be equal to or above (0.70). Most of the factor loadings were above this requirement apart from some items that have been removed. These loadings are significant ($p < 0.05$).

Table: 2 – Results of the Measurement Model

Item	SFL	α	CR	AVE
EO1	0.609	0.794	0.735	0.648
EO2	0.593			
EO3	0.418			
EO4	0.519			
EO5	0.549			
EO6	0.675	0.738	0.814	0.672
HC1	0.685			

HC2	0.209			
HC3	0.567			
HC4	0.696			
HC5	0.729			
HC6	0.639			
HC7	0.603			
HC8	0.574			
EGM1	0.713	0.745	0.740	0.573
EGM2	0.723			
EGM3	0.829			
EF1	0.651	0.779	0.759	0.607
EF2	0.538			
EF3	0.706			
EF4	0.753			
SCF1	0.809	0.770	0.776	0.537
SCF2	0.718			
SCF3	0.465			
LAF1	0.812	0.814	0.815	0.843
LAF2	0.824			
EP1	0.738	0.790	0.795	0.621
EP2	0.440			
EP3	0.448			
EP4	0.638			
EP5	0.440			
EP6	0.742			

Additionally, Table (2) further shows that Cronbach's alpha (α) and the composite reliability (CR) exceed the approved threshold of (0.70). The Average Variance Extracted (AVE) is over the tolerance threshold of (0.50) representing satisfactory convergent validity. Discriminant validity is evaluated by the square root of the AVE, that should be bigger than the correlations between the constructs (Bagozzi & Yi, 1988; Chin, 1998;

2010; Gefen *et al.*, 2000; Hair *et al.*, 2010). This condition is satisfied for all construct (Table 3).

Table: 3 – Discriminant Validity of Variables

	EO	HC	EGM	EF	SCF	LAF	EP
EO	0.801						
HC	0.520	0.819					
EGM	0.416	0.536	0.757				
EF	0.478	0.572	0.452	0.779			
SCF	0.433	0.414	0.322	0.535	0.732		
LAF	0.440	0.486	0.248	0.493	0.430	0.918	
EP	0.542	0.670	0.473	0.695	0.554	0.676	0.788

Note. Correlations between variables were all significant ($p < 0.01$)

Note: Square root of AVE on diagonal, while the other entries represent the correlations.

- Assessment of the Structural Model

Figure 2; and Table 4 present the results of the hypotheses testing. All six hypotheses were supported and consequently accepted.

Figure 2 – Results of the Path Analysis

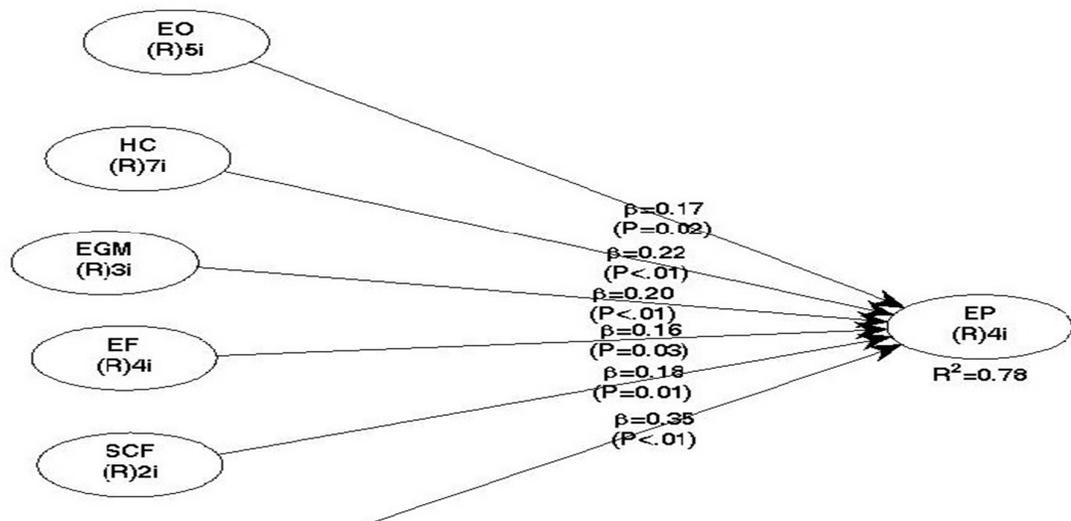


Table 4 – Path Coefficients and hypotheses testing

Hypothesis	Relationship	Path coefficients	p-value	Supported
H1	EO----- Ep	0.171	0.018	Yes
H2	HC----- Ep	0.218	0.004	Yes
H3	EGM----- Ep	0.196	0.008	Yes
H4	EF----- Ep	0.156	0.028	Yes
H5	SCF----- Ep	0.179	0.014	Yes
H6	LAF----- Ep	0.351	0.001	Yes

The results of data analysis show significant support of each of the study's propositions. In this regard, *hypothesis 1*–"There is a significant relationship between Entrepreneurial Orientation EO and SMEs performance" is supported at $p<0.05$. Similarly, *hypothesis 2* -"There is a significant relationship between Human Capital HC and SMEs performance" is supported at $p<0.05$. *Hypothesis 3*- "There is a significant relationship between Enterprise Goals & Motives EGM and SMEs performance" is supported at $p<0.05$, and *hypothesis 4* - "There is a significant relationship between Economic Factors EF and SMEs performance" is accepted at $p<0.05$. Finally, *hypothesis 5* - "There is a significant relationship between Socio-cultural Factors SCF and SMEs

performance", and *hypothesis 6* - "There is a significant relationship between Legal and Administrative Factors LAF and SMEs performance" were both supported at $p < 0.05$.

Notably, the results indicate that out of the six independent variables, the Legal & Administrative Factors (LAF) variable have the strongest positive relationship with the dependent variable at path coefficient = 0.351.

7. Discussion

This study has examined the impact of external and internal success elements of SMEs' performance in the Saudi Arabian context. Six independent variables are claimed to positively influence the dependent variable (i.e. SME performance). Several important notions emerge from the findings, all of which are generally attuned with earlier findings of other scholars. The results add new information to current knowledge by further strengthening and presenting supporting evidence to existing theory of SME performance and success factors particularly in emerging and developing economies.

In this regard, the results indicated that Entrepreneurial Orientation (EO) has a positive influence on the SME performance with statistically significant relationship between the two variables. Consistent with previous research (e.g. Covin & Slevin's, 1989; Hasan & Almubarak, 2016), the SME's entrepreneurial orientation in the form of providing innovative and creative products; radically changing the products provided; risk taking; long term planning; clear vision; and opportunity recognition had a significant and positive relationship with SME performance.

Similarly, it also emerged that Human Capital (HC) is significantly and positively related to SME performance. Human capital is an important organisational resource, and based on the levels of education and experience of workers, SMEs gain significant knowledge that affects different aspects of business performance. While this finding is consistent with what several earlier studies have concluded (e. g. Rosa *et al.*, 1996; Shane & Vankataraman, 2000; Anderson & Miller, 2003; Bosma *et al.*, 2004), yet more recent research (e.g. Hasan & Almubarak, 2016; Chiun Lo *et al.*, 2016) have reported contrary findings. This discrepancy could be justified by the differences in the application context, or due to the fact that HC deficiencies could be overcome and mitigated by other arrangements.

As for the Enterprise Goals & Motives (EGM) variable, it was noted earlier that the related hypothesis is supported. While goals could be ascribed as desired results that are gained from behaving in a reasoned way, motivation could be defined as the process by which goal-directed activities are started and continued. The findings are consistent with the majority of previous studies that investigated the influence of the EGM on the Enterprise's performance. For example the studies of Shane, (2003); Teoh & Chong, (2007); Sadi & Al-Gazali, (2012); and Hasan & Almubarak, (2016) have all supported this positive association.

With regard to the relationship between Economic Factors (EF) and SME performance, the supported hypothesis is consistent with the studies of Rosa *et al.*, (1996); Wube (2010); and Ekype *et al.*, (2010). Economic factors refer to the external market conditions that affect the business, and the internal factors related to financing and raising necessary funds for the business.

With regard to the relationship between Social & Cultural Factors (SCF) and the Performance of the SME, the findings are compatible with previous studies that reported the impressive effect of social factors on the SME performance (e.g. Pirolo & Presutti, 2010; Javadian & Singh, 2012; Arasti *et al.*, 2012).

Finally, Legal & Administrative Factors (LAF) are found to have positively relationship with SME performance, consistent with the studies of Shane, (2003); Ekype *et al.*, (2010); Javadian & Singh, (2012); Hasan & Almubarak, (2016). LAF factors include a wide array of issues related to the governmental policies; laws; and regulations that organise business; trade; and commerce within a particular market/country. These factors are classified into three (3) groups: banking rules & regulations; tax laws; and labour laws. All of the three groups are claimed by literature to significantly affect the performance of all types of businesses in general, and SMEs in particular.

As noted earlier, the strongest association amongst this study's independent variables and the dependent variable is reported for the LAF variable. It can be confidently claimed that these LAF factors are the "make it or break it" factors for the success of SMEs in developing economies in general, and the Saudi Arabian context in particular.

8. Managerial implications and conclusions

The study in hand has sought to explore the influence of several success elements on SMEs' performance. Specifically, a set of six factors grouped into internal and external factors were derived from relevant literature, based on the empirical study of Hasan & Almubarak, (2016) and were put to empirical validation in order to confirm their influence

on the enterprise's performance (financial and non-financial). The findings revealed that all proposed factors have significant relationship with the performance of the SME, which means that – for example - having a higher degree of Entrepreneurship Orientation is more likely to reflect positively on the SME's performance. Likewise, Investing in Human Capital is claimed to result-in favourably on the performance of the enterprise.

When the enterprise's goals and motives are entrepreneurial in nature and aspire creativity; self-actualisation; independence; freedom; and social status, they are likely to impact positively on the performance of the enterprise too.

If the economic, socio-cultural, and legal & administrative factors are favourable, it is more likely for the SME to succeed and prosper. On the contrary, SMEs' performance is expected to deteriorate if the above factors are less encouraging and prove unfavourable.

Accordingly, several implications are put forward to practitioners. These are:

- There are significant and meaningful associations between this study's independent variables and the performance of the enterprise. These variables are ascribed as success factors that were derived from the literature of SMEs,**
- Entrepreneurial Orientation;; Economic Factors Human Capital; Socio-cultural Factors; the Enterprise Goals & Objectives; and Legal & Administrative Factors were found by this study to influence the enterprise's performance leading to its success, or failure,**

- Practitioners, i.e. owners, directors, and managers of SMEs have promising opportunities to identify the strengths and weaknesses; the opportunities and threats that face their enterprises in terms of the six success factors elected by this study,
- Investing in human capital, adopting an entrepreneurial orientation, and setting adequate organizational goals and motives are three suggestions related to one half of the study's independent variables. The other half is more relevant to policy makers, legislators, and government officials,
- Policy makers, legislators, and other officials should pay attention to three success factors if the important SME sector is to prosper and flourish. The SME sector is an important catalyst of economic development in national, regional, and international economies. These factors are: Economic Factor; Socio-Cultural Factors; and Legal & Administrative Factors.
- Special attention should be given to the regulations, policy, laws, and legislations makers whose contribution and influence on SMEs success is evident.

9. Limitations and recommendations for future research

Since this study has investigated the SMEs in Saudi Arabia, using a convenient sample from SMEs established and operate in the region of Tabuk, generalisations of the findings to other sectors, contexts, or countries should be treated with care. The use of convenient sampling technique also limits the applicability of findings. Accordingly, academics and researchers are encouraged consider the following points:

- **Researchers are encouraged to put the reported relationships among the study's variables to further validation in other contexts, and by using other sampling techniques,**
- **Future research could also examine the moderator effect of several variables, such as the gender of the entrepreneur, and the size/sector of the SME,**
- **Comparative studies with other countries, regions, or industries are encouraged for future research in order to improve understanding of the relationships among the study's variables,**
- **Other research approaches, such as case studies are important for future research in order to advance our understanding of the research variables,**
- **Finally, a rather qualitative approach in the form of depth interviews with entrepreneurs, policy makers, and other significant personnel in the SMEs sector should be encouraged in order to induce knowledge and enrich relevant literature.**

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