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# The Impact of Management Capabilities on SMEs Financial Performance; the Moderating Role of Financial Access

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## ABSTRACT

Small and Medium Enterprises (SMEs) face various challenges and barriers in developed and developing economies. Due to lack of resources, they often fail to survive for the long term. Prior studies have discussed different factors that can enhance the success and performance of SMEs. However, the role of top management capabilities is rarely discussed in emerging economies. This research fills the gap by examining the role of top management capabilities in the financial performance of SMEs with a moderating role of financial access. For this study, data were collected through a structured questionnaire from 150 SMEs operating in Rawalpindi and Islamabad. To test the hypotheses and model, regression analyses were performed in SPSS. The results indicate that top management capabilities and financial access have a significant positive influence on the financial performance of SMEs. However, financial access a moderator does not significantly contribute to SMEs performance in the emerging market. We recommend SMEs to give enough attention to top management capabilities and various sources of finance to gain high profit and stay for a long time in the dynamic markets. Further implications are discussed.

**Keywords:** management capabilities, SMEs Performance; Financial Access

## 1. INTRODUCTION

Due to globalization and technological change, markets conditions are dramatically changed in developing and developed economies. Hence, business organizations are persistently involved in the attainment of sustainable competitive and superior performance (Kasemsap, 2015; Ho, Ahmad & Ramayah, 2016; Martinez-Conesa, Soto-Acosta & Carayannis, 2017). Organizations regardless of their size and nature of the business spend enough money and resources to perform over other firms

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### Article info

Received Dec 07, 2018  
Accepted June 27, 2019  
Published June 30, 2019

and to achieve a sustainable competitive position in the dynamic markets (Bagnoli & Vedovato, 2014; Saunila, 2014; Flynn & Davis, 2017). However, SMEs in emerging economies face different problems such as lack of finance, lack of IT skills, lack of resources, deficiency of support, the dearth of knowledge and lack of modern technology which hinder their performance as compared to large firms (Ismail, 2016; Saunila, 2017). Numerous studies have been carried to explore the determinants that can influence SMEs performance such as IT capabilities (Neirotti & Raguseo, E. (2017), entrepreneurial orientation (Irwin et al., 2018; Arzubaga et al., 2018), networking (Anwar, Rehman & Shah, 2018). ;Scuotto, Del Giudice & Carayannis, 2017), intangible assets (Radulovich, Javalgi & Scherer, 2018), creativity (Sussan et al., 2017), knowledge sharing (Soto-Acosta, Popa & Palacios-Marqués, 2017), intellectual capital (Khalique et al., 2018; Ferreira & Franco, 2017) etc. However, studies have rarely touched the role of top management capabilities in the success of SMEs, especially in emerging markets. Moreover, the moderating role of financial access is remained scared despite having a significant role in SMEs performance. Therefore, this study is a new attempt to fill this gap by examining the moderating role of financial access between top management capabilities and SMEs performance.

Management capabilities are the abilities of managers to construct, assimilate and arrange the resources and competencies of organizations (Adner and Helfat, 2003). From a theoretical perspective, top management capabilities contribute to the establishment of the foremost logic in a firm that took tangible form in practices, activities, and competencies. These capabilities, in turn, impact the implementation of firms' innovation, strategies and hunt for novel choices and opportunities (Kor and Mesko, 2013). Top management capabilities are very crucial for organizations success and performance in the turbulent markets. For instance, the Upper Echelon Theory states that the success and performance of an organization depend on top managers' background and psychological characteristics (Hambrick & Mason, 1984). Moreover, is also indicated that different management capabilities have different benefits for organizations. However, mostly cited advantageous are business growth, adaptation, decision and strategic change (Helfat and Martin, 2015). An organization with less competent managers and lack intellectual

capabilities cannot perform over those firms that have highly competent and intellectual managers (Dubey et al., 2018). From resource-based view theory perspective, there are two major types of management capabilities; dynamic capabilities and adaptive capabilities. Dynamic capabilities refer to the capabilities of a firm to change its internal process and abilities with changing the environment. In other words, dynamic capabilities mean a firm ability to scurry with changing direction in a market (Wamba et al., 2017). Adaptive capabilities demonstrate a firm ability to respond to the external changes before the competitors do. In simple words, adaptive capabilities refer to the firms' proactive ability and actions where firms do before their major competitors do (Polat & Akgün, 2017). To gain more useful insights, this research uses both types of management capabilities regard to a firm output and performance in emerging economies. This research contributes to the existing theory of resource base view that explained how unique resources and capabilities are essential for superior performance and a highly competitive position (Barney, 1991). Moreover, this study also assesses the theme of upper echelon theory which states how top management capabilities influence organization outcomes and decision.

Though, many studies have discussed the importance of top management capabilities in the performance of business organizations and have discussed significant implications. However, this research demonstrates the importance of top managers' capabilities in the context of emerging SMEs. Moreover, this research states the importance of management capabilities and financial resources in the context of emerging SMEs that face various problems. It recognizes the convenient and usable practices that are beneficial for owners and managers of SMEs to configure their performance. SMEs in turbulent markets looking for less expensive and less risky projects to stimulating their performance. In this perspective, this research enables them to give enough attention to the top management capabilities that may help to obtain necessary fund for operational activities which in turn enhance firms' performance.

### **Theoretical Background**

This research aims to test the influence of top management capabilities on the performance of SMEs with a mediating role of financial access. As pointed out by

resource base theory (Barney, 1991), a firm with numerous tangible and intangible resources and capabilities can gain a sustainable competitive status in a turbulent market and can also gain superior performance over its competitors and industry rivals. In this regards, top management capabilities are deemed intangible capabilities that are helpful for the achievement of high performance and success. Moreover, another theory that is tested in this research is the upper echelon theory which demonstrates the role of top management skills, characteristics and competency in firm outcomes and success (Hambrick & Mason, 1984). For instance, many studies in this perspective have tested the role of top management capabilities in firm performance. Martinez-Conesa et al., (2017) who indicate that top management capabilities are very crucial for superior performance and high profitability. Moreover, Srećković, (2018) also argued that proficient managers are able to build a strong position in their market and are able to beat their competitors easily. In the similar context, it is also indicated that an organization with less competent managers and lack intellectual capabilities cannot perform over those firms that have highly competent and intelligent managers (Dubey et al., 2018). In addition to this, financial resources are considered very crucial in high profitability of a firm. Finance access, from resources based perspective, is discussed by Fonsika et al, (2014), that a firm must have enough finance to enhance its survival. In addition, Kelley, Singer, and Herrington, (2012) also indicated that access to finance as the adequacy of interior sourced of money related assets which could incorporate capital and another type of monetary services to business undertakings. Approaching money is vital to the development and improvement of any type of business foundation (Kasseeah et al., 2013). Notwithstanding, it is evident in the study that money-related openness is one of the real difficulties going up against SMEs over a few emerging countries, particularly in developing economies (OECD, 2017; Singer, Amorós, and Arreola, 2015). Hence, both capabilities are very essential for SMEs success in emerging economies.

## 2. LITERATURE REVIEW

### **Top Management Capabilities and SMEs Performance**

Since the last two decade, managers have preferred knowledge as assets and they

are appreciated for the acquisition of the competitive market (Quintane et al., 2011). To know KM ability, it is critical to answering a few inquiries concerning knowledge first. In this level, the objective is to know the "nature" of learning with the goal that administration exercises coordinated towards its age, utilize and dissemination are compelling, effective and accommodating (Marques, Leal, Marques, and Cardoso, 2016). The top management team has turned into a vital idea in the business world. Davenport, (2005) expressed that "there is no the same old thing or financial issue that is more vital to our long-haul intensity and way of life than making learning specialist more beneficial". In other words, knowledge is the one beyond any doubt wellspring of competitive advantage of the market.

Leading scholars giving importance to the idea of knowledge management as a competitive advantage. They propose that the end goal to stay competitive, the organization should proficiently and adequately produce, assign, and in addition share learning and skill to apply for the solution of issues and development projects. Concentrates on top management ability showing the significance of creating authoritative knowledge as a resource having the capacity to confront rivalry (Navarro, and Moya, 2005), Tanriverdi, (2005). Expanded ability to confront the opposition obviously demonstrates an expansion in execution. This reinforces the utilization of top management capacity to have the capacity to make cooperative energies of information and can be utilized by organizations as an aggressive manageability advantage in order to enhance organizational performance.

Strong positive relationship between Knowledge Management capacity and organizational performance represents that three characteristics of top management ability – production of related information, exchange of related learning, combination of related learning – make and endeavor cooperative energies crosswise over units when the three measurements were connected together, framing a cross-unit information collaborations that can enhance organizational performance (Tanriverdi, 2005). Hence, the fourth theories figured as pursues.

The incredible enthusiasm for top Knowledge Management with respect to associations get from their wishes which builds it imagination and advancement, which,

thusly, results in advantages collecting to the associations, specifical enhancement in firm execution (Darroch 2005; Moffett, McAdam, and Parkinson, 2002; López-Nicolás and Meroño-Cerdán 2011). Firm performance is scrutinized by numerous academics. The study in this area offers various performance measures, which taken exclusively can't cover every single gap part of the reliable performance (Crook, Combs, and Shook, 2005). Numerous performance situations can be recognized, each as per the environment in which firms work. According to Lebas and Euske (2002), the intricacy introduced by firms in each marketplace keeps a decrease of business performance to a solitary marker, consequently needing the blend of different pointers to expand an investigation of organizational performance.

Additionally, performance represents the (1) activities, (2) the result of these activities and (3) the accomplishment of these outcomes, when contrasted with some standards. Considering this point of view, performance compares to the esteem formation possible in a given timeframe. Many researcher finding shows that, for example, Wu and Lin (2009) and Lee and Choi (2003), have discovered an immediate effect of top management capabilities on organizational performance. Besides, Gold, Malhotra, and Segars, (2001) featured that top knowledge management incorporates any created capacity to advance, enhanced coordination endeavors, fast commercialization of new items, capacity to foresee emergencies, quick non-representing to showcase change and decreased excess of data/knowledge. All the more especially, as indicated by López-Nicolás and Meroño-Cerdán (2011), firm performance is a multidimensional idea for which a progression of markers should be utilized to think about firms' situations over a given period in connection to their market competition.

These researchers are not absolutely in term of financing fully. With the end goal to pick up the fullest conceivable picture of business undertakings' execution and the esteem they make, different pointers, for example, those identified with profitability, quality, consumer loyalty, and internationalization, likewise should be considered. In this investigation, we utilized monetary and non-budgetary execution as subcategories of the hierarchical execution classification. As indicated by Chilton and Bloodgood (2013), top management skill is principally gone for shielding firm's information from the utilization

by challengers to misuse a competitive position for the firm. Following the development of a knowledge-based economy in the coming of globalization, Anand et al., (2012) have found knowledge administration as of most extreme significance to make and increase the value of the business. Other past examinations (Whelan, and Carcary, 2011). Kianto et al., (2014) have contended that knowledge administration is a business firm that still stays being developed regardless of it being a viable instrument to produce a competitive advantages firm performance. Thus;

***H<sub>1</sub>: Top management capabilities have a positive influence on SMEs performance.***

### **Financial access and SMEs Performance**

Access to finance is defined by Ganbold (2008) which means the time where the firm finance manager is feeling that financial & non-financial problems were creating a little or not important threats to the achievement of tangible or intangible resources and services. Draw it an unexpected way, Kelley, Singer, and Herrington, (2012) saw access to finance as the adequacy of interior sourced of money related assets which could incorporate capital and another type of monetary services to business undertakings. Approaching money is vital to the development and improvement of any type of business foundation (Kasseeah et al., 2013). Notwithstanding, it is evident in the study that money-related openness is one of the real difficulties going up against SMEs over a few emerging countries, particularly in developing economies (OECD, 2017; Singer, Amorós, and Arreola, 2015). The suggestion is that entrance to money related assets may have a huge effect on the firm growth to assemble assorted abilities to convey high performance. This thought support to the perspectives of Tang, Tang, Marino, Zhang, and Li, (2008) that business firms may not effectively execute their vital expectations or activity designs without satisfactory money related assets.

Moreover, Elsenhardt and Martin (2000), and Wiklund and Shepherd (2005) focus that the ability to get a handle on and use in the commercial center a great extent relies upon the financial quality of business undertakings to buy both tangible and intangible assets. Furthermore, Fatoki (2012) opined that business firms with a generally abnormal state of finance use may be in a better position to convey powerful incentive in the commercial center. In this way, access to finance abilities to recognize and seize

chances to convey an incentive in the commercial center. According to Kelley et al. (2012), access to finance might be measured on the accessibility and openness of advance from money related establishments, companions/family; exchange credit from providers or different colleagues/partners; hardware renting by either government or its organizations, providers, and other SME supporting offices.

In the current era, increasing in the SMEs sector in developed and emerging markets face a shortage of access to financial resources (Hussain, Millman, & Matlay, 2006). According to past literature find that easy access to finance positive effect on the SMEs financial and non-financial performance. The firm growth and success the easily Access to finance are playing a vital role (Stam & Garnsey, 2008; Butler & Cornaggia, 2009). Ayyagari et al. (2011) reveal from his finding that external source of finance having a high impact on SMEs performance. However, Ayyagari et al. (2011) investigated that using external finance are more fruitful from an internal source. Besides, one study is studied in the US govt, He showed that financial entrance significantly and positively contributes to the agricultural sector. It states that the high access to funding moderately builds their creation levels (Butler and Cornaggia, 2009). Numerous literature featured access to finance as one of the dynamic mechanisms of empowering financial condition (see Isern et al., 2009; Hussain et al., 2006). Expansion of access to finance for SMEs can enhance financial conditions in creating nations by encouraging development, macroeconomic flexibility and GDP development (Bouri et al., 2011). Total financial execution will be enhanced by expanding the entrance to capital (World Bank, 2011).

In the past various studies, results explain like, Eriotis et al. (2002) and Bartholdy and Mateus (2006) find that the user of an external source of finance negatively affects the productivity of firms. Many other studies results, for example, Negash (2002) and Hadlock and James (2002) explore a huge positive connection between the utilization of using of an external source of finance and SMEs financial performance and non-financial performance. Subsequently, it is conjectured that there is a positive connection between the user of the external source of funding and SMEs performance.

Resources are having various types but financial capital is the best common type and it is easily converted to another alternative resource. Hence, for the growth of small



and medium enterprises, access to capital are counting is very important (Wiklund & Shepherd, 2005). Access to finance is one serious issue facing SMEs development in developing countries. Past literature defines his study finding that firm growth best performance are a tribute to the firm easily access financial capital (Demir & Caglayan, 2012; Turyahebwa, Sunday, & Ssekajugo, 2013). (Cheng, Ioannou, & Serafeim, 2014) reveal in his study that access to finance is overlapping with firm strategies. It is elaborated in past studies that firms having a high entrepreneurial capability that goes towards the best internal or external sources of finance (Mohammed & Obeleagu-nzelibe, 2014). Many studies have confirmed a significant positive influence of financial access on firm performance (Moreno & Casillas, 2008; Wiklund & Shepherd, 2005). Therefore;

***H<sub>2</sub>: Access to finance has a positive influence on SMEs performance.***

### **The moderating role of financial access**

Small enterprises are facing a large number of challenges due to the lack of financial and managerial sources which it effects on their interior financial resources (Carbó-Valverde, Rodríguez-Fernández, and Udell, (2016). Moreover, restricted financial abilities also adversely effect on growth, innovativeness, newness of survival, development, and advancement. It is underestimated that (Fraser, Bhaumik, and Wright, (2015), a scarceness of administrative capability are related with firms' financial sources that antagonistically impacts firms' capacity to get to ideal obligation and value (Hatten, 2015). To elevate chance and to streamline SMEs' potential, it is proposed that financial sources will be enhanced as that will impact firms' survival and development (Story, 1994). This relationship strengthens the need for enhancing managerial ability among SMEs to limit the obstruction to get to outside fund. Nonetheless, the inquiry remains in the case of advancing administrative capacity decreases the information asymmetry that empowers finance establishments to settle on better loaning decision.

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financial performance. Subsequently, it is conjectured that there is a positive connection between the handling of the external source of finance and SMEs performance. Strong and positive association between Knowledge Management capacity and organizational performance represents that three characteristics of Knowledge Management ability – production of related information, exchange of related learning, combination of related learning – make and endeavor cooperative energies crosswise over units when the three measurements were connected together, framing a cross-unit information collaborations that can enhance organizational performance Tanriverdi, (2005). Hence, the fourth theories figured as pursues.

Since, in spite of fact that, the attention on administrative ability and information administration and their effect on banks' basic leadership remain generally under-investigated despite the fact that it has been perceived by experts and approach creators, the world over, that effective money related administration and ideal financial structures are basic variables for business achievement. Given the level of significance for SMEs, it is critical to analyze scientifically the job of administrative capacity among administrators and leaders. Generally, relationship keeping money inside the UK certainly perceived the significance of administration abilities as far as information on fund and administration. Be that as it may, throughout the most recent two decades with the end goal to conquer budgetary hazard, local predisposition, and human subjectivity, loaning establishments have adjusted a value-based quantitative hazard appraisal (Ma, Ansell, and Andreeva, 2016). Moreover, financial sources moderate the knowledge gap (Adomako, Danso, and Ofori Damoah, (2016), enhances administrative capacity rehearses that decidedly affect firms' credit value that, thusly, empowers a firm to enhance its performance Van Rooij, Lusardi, and Alessie, (2011), and decrease credit cost. The gainful properties of administrative capacity in this manner moderate firms' entrance to fund and positively affect knowledge asymmetry and development. Therefore;

**H<sub>3</sub>.** *Financial access moderates the relationship between top management capabilities and SMEs performance*

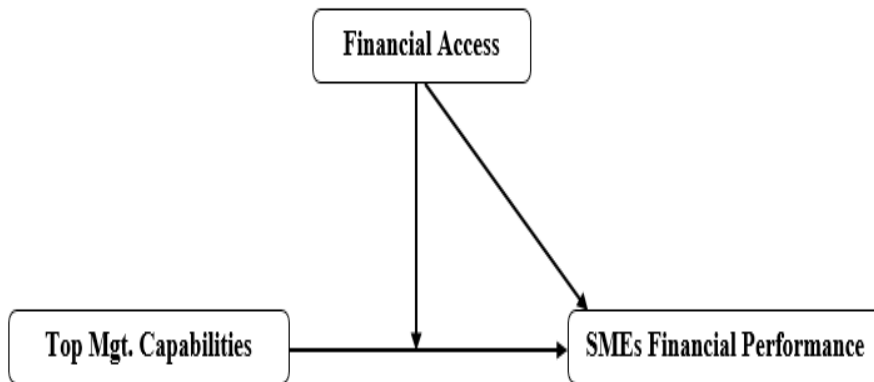


Figure 1. Research Model

### 3. RESEARCH METHODOLOGY

#### Research Design

This research is established on empirical data gathered from SMEs working in the emerging economy of Pakistan. Several statistical tests are executed to derive outputs. Hence, the nature of research is lied in quantitative as it is based on data set collected from a Pakistani entrepreneur and tested through SPSS. Moreover, it is a deductive study as it tested exiting theories.

#### Sample and Population

For this study, we relied on empirical evidence through a structured questionnaire from owners and managers of SMEs in Rawalpindi and Islamabad. The population of the study is top managers and owners as they are more concerned with financial capital and performance of their firms. This research surveyed 150 SMEs as a sample size to provide implications.

#### Sampling method

This research used a convenient sampling method to collect data. Hence, on the basis of nonportability base formula a sample size of 150 entrepreneurs are surveyed in this research for testing the model. There were many SMEs registered and unregistered in Rawalpindi and Islamabad. Hence, it is difficult to know about the exact number of firms. Therefore, we followed convenient sampling in this research.

### **Data Collection Tool**

We used a structured questionnaire to gather data because the email survey offers a very low response rate in developing economies (Songling et al., 2018). English version questionnaire was used as it is easily understood by business managers because they are the most strategic person responsible for long term strategic decision and they easily understand the English version of the questionnaire. In the questionnaire, it was ensured that data collected through this questionnaire will be part of our research and information will not disclose with the public.

### **Measurement of variables**

In this research, three major variables are used. Top management capabilities as independent, financial access as a moderator and firm performance as a dependent variable.

#### **Top management capabilities:**

Management capabilities are the abilities of managers to construct, assimilate and arrange the resources and competencies of organizations. There is no single definition to cover top management capabilities. However, we relied on the most used measure in the case of SMEs that are used by Ruiz-Jiménez and Fuentes-Fuentes (2016) where 12 items were adopted and used for top management capabilities.

#### **Financial access:**

Financial access demonstrates the ability of a firm in term of access to financial capital in a market or region. In order to gain more useful results, we relied on 3 items “Easily obtains finance from banks and other institutions used to measure access to finance in SMEs context that is used by Ansong (2017).

#### **Financial Performance:**

From SMEs perspective, measurement of performance has become a question. However, studies are agreed upon the subjective measures in SMEs to avoid biases. Therefore, we used 8 items to measure perceived financial performance that is adopted from the study of Anwar (2018). Financial performance was measured with 5 point likert scales extending from extremely declined 1 to extremely improved 5.

### Scales

We used 5 points Likert scale to measure the variables. The scale is ranging from strongly disagree 1 to strongly agree 5.

### Control Variables

For the purpose to eliminate the spurious insights, we performed ANOVA for testing the control variables. We checked the influence the nature of the industry, size of firms, and age of firms on firm performance. All of the variables provided insignificant results. Thus, we presumed that these variables are not significantly related to firms' performance. As results, we dropped these variables instead of controlling them in regression analysis.

## 4. RESULTS AND DISCUSSION

### Demographic Detail

The profile of the business firms is presented in table 1. The results show that there are 72 manufacturing firms, 50 tradings, and only 28 services firms that are participated in this research. Size of firms' shows that there are 41 firms where 20 to 50 employees were working, in 23 firms, 51 to 100 employees were working, 14 are those firms where 101 to 150 employees were working, 34 firms have 151 to 200 employees and the rest 38 were those firms where there are 201 to 250 employees were working. There were 55 firms that have opened their transactions since the last 10 years, 57 firms have initiated their business for 11 to 20 years and 38 firms have started their operation for more than 20 years.

<b>Table 1. Profile of the Business firm</b>		
<b>Factors</b>	<b>Frequency</b>	<b>Percentage</b>
Nature of Industry		
Manufacturing	72	48.0
Trading	50	33.3
Services	28	18.7
<b>Size of firms</b>		
20 to 50 employees	41	27.3
51 to 100 employees	23	15.3
101-150 employees	14	9.3
151-200 employees	34	22.7

201 to 250 employees	38	25.3
<b>Age of firms</b>		
10 years and less	55	36.7
11 to 20 years	57	38.0
21 and above years	38	25.3
Total	150	100

### Common Method Bias

In the event that information is gathered from a solitary source in the meantime, the issues of common method bias (CMB) may emerge, which may influence legitimacy. Harman's single factor test utilizing SPSS was utilized to test CMB. The first factor explained only 22.59% variance that is lower than 50%. Thus, we confirmed the non-existence of the common method problem in this research

### Descriptive Statistics

Descriptive statistics of this research have shown in table 2. The results indicate that top management capabilities have mean value 3.5 and its S.D. have 0.44, financial access has to mean value 3.2 and S.D. 0.60 and finally, financial performance has to mean value 3.5 and S.D. is 0.37. The Skewness and kurtosis show that the data are normal because none of the values is greater than 2 which is lied in normality range (George & Mallery, 2010).

<b>Table 2. Descriptive statistics</b>						
Variables	Minimum	Maximum	Mean	S.D	Skewness	Kurtosis
Top management capabilities	2.17	4.67	3.5039	.44205	-.862	1.108
Financial Access	2.00	4.67	3.2067	.60036	-.330	-.448
Financial Performance	2.73	4.18	3.5303	.37747	-.212	-1.287

### Reliability Analysis

Reliability shows that the internal consistency of the questions that have asked toward a specific variable. The reliability of the factors is shown in table 3. It is recommended that the reliability value will be greater than 0.70 to gain acceptable consistency of the factors (Nunnally & Bernstein, 1994). In our study, all the factors have

reliability value greater than 0.70 which show that the internal consistency is achieved.

<b>Table-3: Convergent and Discriminant Validity and Composite Reliability</b>			
Variables and Items	AVE	$\sqrt{\text{AVE}}$	C.R
Top management capabilities	0.55	0.74	0.79
Financial Access	0.55	0.74	0.91
SME'S Performance	0.57	0.75	0.71

Note: C.R. =Composite Reliability, AVE=Average Variance Extracted

However, before testing the hypotheses of the study, it has been suggested to check the validity and reliability of the constructs (Barclay et al., 1995). Thus, convergent validity, discriminant validity, and composite reliability were confirmed in the study (see Table 3). Convergent validity indicated the accepted value for all the constructs (greater than 0.50) as suggested by Hu and Bentler (1999) and Hair et al. (2010). Discriminant validity also gave acceptable values for all the constructs (greater than 0.70) as suggested by Hu and Bentler (1999) and Hair et al. (2010). Moreover, it has also suggested that the discriminant validity of the construct will be higher than the correlation values of the construct with other constructs; this study met the condition (Hu and Bentler, 1999; Hair et al., 2010). Composite reliability of each construct has a higher value than 0.70 that has accepted as per the recommendation of Nunnally and Bernstein (1994).

### Correlation Coefficients

We performed Pearson correlation in SPSS to examine the association between the variables that are shown in table 4. The results show that that the relationship between top management capabilities and financial performance is significant and positive ( $r = 0.326$ ,  $p < 0.05$ ) and the relationship between financial access and financial performance are significant and positive ( $r = 0.695$ ,  $p < 0.05$ ).

<b>Table 4. Correlation Coefficients</b>					
Variables	Size	Age	TMC	FA	FP
Size	1				
Age	.676**	1			
Top management capabilities	.082	-.097	1		
Financial Access	-.021	-.078	.138	1	
Financial Performance	.063	-.006	.326**	.695**	1

Note: \*\* Significant at level  $p < 0.01$ . TMC=top mgt. capabilities, FA=Financial access

### Multicollinearity

. The result indicated (see below Table 5) that there are no multicollinearity issues in the study as value for each variable is less than 3 indicate free of biased estimates as well as the absence of multicollinearity in the independent variables (Neter, Wasserman, and Kutner, 1983). Although, the value of VIF suggested being less than 10 indicates no multi-collinearity issues (Hair et al., 2010).

In addition, there is no agreed value of VIF. For instance, the rules of thumb for the VIF are as follows:

- $VIF < 3$  considers no problem
- $VIF > 3$ ; considers potential problem
- $VIF > 5$ ; considers the very likely problem
- $VIF > 10$ ; considers definitely problem

The tolerance value for all the factors are above 0.10 indicates no multi-collinearity issue as the tolerance values less than 0.10 strongly indicates that there are multi-collinearity issues (Hair et al., 2006).

<b>Table 5 Collinearity Statistic</b>		
Independent Variables	Financial Performance	
	Collinearity statistics	
	Tolerance	VIF
Top management capabilities	0.860	1.163
Financial access	0.860	1.163

### Regression Analysis

For testing hypotheses, this research applied regression analysis in SPSS and the results are presented in table 5 and table 6. The influence top management capabilities and financial access have checked on the financial performance of SMEs and also the influence of the moderating role of financial access has checked on financial performance. The model summary table shows that the factors e.g. top management capabilities and financial access bring 54.3% change in the financial performance of



SMEs.

**Table 5. Regression Analysis**

Model Summary									
Model	R	R Square	Adj. R Square	S.E of the Estimate	Change Statistics				
					R <sup>2</sup> Change	F Change	df1	df2	Sig. F Change
1	.733 <sup>a</sup>	.537	.531	.25860	.537	85.226	2	147	.000
2	.737 <sup>b</sup>	.543	.534	.25769	.006	2.045	1	146	.155
a. Predictors: (Constant), financial access, top management capabilities									
b. Predictors: (Constant), financial access, top management capabilities, TMCxAF									

According to step 2 of the coefficients table, the influence of top management capabilities on SMEs performance is significantly positive ( $\beta = 0.555$ ,  $p < 0.05$ ) that accepted the H1 of the study. The influence of financial access on the financial performance of SMEs is also significant and positive ( $\beta = 0.822$ ,  $p < 0.05$ ) which supported the H2 of the research. However, financial access as a moderator (e.g. the interaction term of top management capabilities and financial access) has not a significant influence on the financial performance of SMEs ( $\beta = 0.113$ ,  $p > 0.05$ ) that did not support H3 of the research.

**Table 6. Coefficients**

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.493	0.192		7.775	0.000
	Top management capabilities	0.200	0.048	0.234	4.133	0.000
	Financial access	0.417	0.036	0.663	11.694	0.000
2	(Constant)	0.227	0.906		0.251	0.802
	Top management capabilities	0.555	0.253	0.649	2.195	0.030
	Financial access	0.822	0.285	1.307	2.878	0.005
	TMCxFA	0.113	0.079	0.817	1.430	0.155

a. Dependent Variable: Financial Performance

Note: TMC= top management capabilities, FA=financial access

## 5. DISCUSSION

This research is an effort to examine the role of top management capabilities and financial access in the performance of SMEs. More concisely, this research examines the role of top management capabilities in the financial performance of SMEs with a moderating role of financial access. This is doubtless that many studies have been contributed to the existing literature of top management capabilities, financial access and SMEs performance (Neirotti & Raguseo, 2017; Irwin et al., 2018; Scuotto, Del Giudice & Carayannis, 2017). However, many of these studies have focused developed and European markets while emerging economies in this perspective have been rarely touched. Moreover, the moderating role of financial access has been ignored in the existing literature. This research claims new and useful insights to use the moderating role of financial access between top management capabilities and SMEs performance. In addition, this study is conducted in an emerging economy that can provide beneficial insights into emerging and developed economies. Similarly, this research contributes to the existing theory of resource base view in term of intangible resources (top management capabilities) as well as financial access that can enhance the financial performance of SMEs. In addition, this research also assesses the major theme of upper echelon theory in term of top management capabilities toward a firm performance.

Our findings indicate that top management capabilities significantly contribute to SMEs financial performance in emerging economies that supported H1 of the research. In line with - Martinez-Conesa et al., (2017) who indicate that top management capabilities are very crucial for superior performance and high profitability. Moreover, Srećković, (2018) also argued that proficient managers are able to build a strong position in their market and are able to beat their competitors easily. In the similar context, it is also indicated that an organization with less competent managers and lack intellectual capabilities cannot perform over those firms that have highly competent and intelligent managers (Dubey et al., 2018). We confirmed in this study that top managers are the most influential factors that can spur organization financial performance in turbulent markets.

Our results showed that a firm with adequate financial access can gain high

financial performance that supported H2 of the research. Similar results have derived by Negash (2002) who stated that a firm with sufficient sources of finance can adjust all the necessary transaction in an effective way which in turn lead to superior financial performance. Moreover, Singer, and Herrington, (2012) saw access to finance as the adequacy of interior sourced of money related assets which could incorporate capital and another type of monetary services to business undertakings. Approaching money is vital to the development and improvement of any type of business foundation (Kasseeah et al., 2013). Notwithstanding, it is evident in the study that money-related openness is one of the real difficulties going up against SMEs over a few emerging countries, particularly in developing economies (OECD, 2017; Singer, Amorós, and Arreola, 2015).

We found that financial access as a moderator does not significantly strengthen the relationship between top management capabilities and SMEs financial performance. Unlike Adomako, Danso and Ofori Damoah, (2016) who claimed that financial access is necessary for different types of operating activities and thus management need to expand their financial network. Our findings show that financial access does not significantly moderate the association between top management capabilities and SMEs financial performance in emerging markets. This can lie that SMEs have not enough financial sources that may beneficial for high growth and opportunities. For instance, in Pakistan, there is a lack of external financial support for SMEs and many firms are unable to significantly enhance their performance through the external financial sources.

### **Implications / Recommendations**

This research suggests various implications for the concerned authorizes; top managers, owners, and policymakers in the context of SMEs performance in developed and emerging economies. The implications are below

This research found that top management capabilities are prominent for the improvement of SMEs profitability. Hence, managers need to perform their activities creatively.

- Firms need to hire the most competent and skilled employees and managers in order to enhance their profitability.
- Every organization is busy with the achievement of high profit. This

research helps them to give enough attention to top managers' competency in order to enhance firm survival.

- Many owners and managers spend lots of financial capital in different sources and resources to improve sales growth. This research enables and discovers that top managers are the less expensive way to spur profits.
- We found that a firm with greater access to finance can acquire superior performance and high profit in emerging markets. Hence, we recommend top managers and owners of SMEs to give enough attention to different sources of finance.
- In emerging economies, many SMEs have not enough internal finance to articulate their operational activities, hence access to finance becomes a central focus for them.
- However, our findings show that financial access does not moderate the relationship between top management capabilities and SMEs performance. Therefore, we recommend giving attention either to top management capabilities or financial access at a time rather believing in both at the same time.
- The findings are not only beneficial for emerging markets but developed markets are equally counted.
- SMEDA and Government can modify their policies and strategies for the improvement of SMEs sector. So they will contribute significantly to economic growth and development.

### **Limitations and Future Research**

This study has discussed several implications for top managers, owners, and policymakers. However, this study has not covered all the necessary zones and factors that are deemed limitations in this research and will be addressed in future studies. For instance, this research collected data from only 150 SMEs. However, there are many SMEs in the country, so future researchers are advised to see this issue by collecting data from a big sample. We tested the model based on the evidence collected from Rawalpindi and Islamabad, future researchers are requested to collect evidence from other big cities

such as Faisalabad, Lahore, and Karachi to gain more useful evidence. We tested the model using the influence of top management capabilities towards SMEs performance in the presence of only financial access as a moderator. However, there are studies who claimed that the relationship between top management capabilities and SMEs financial performance can be moderated by other factors also (Ribau, Moreira & Raposo, 2017; García-Sánchez, García-Morales & Bolívar-Ramos 2017; Soto-Acosta, Popa & Martinez-Conesa, 2018). We recommend the moderating role of intellectual capital and market knowledge in this perspective. Moreover, the mediating role of innovation and risk-taking can also be considered to gain better insights. The model can be tested in other emerging economies and a comparative study between developed and emerging markets can give good outputs.

## 6. CONCLUSION

The aim of every business organization is to gain high profit and sales. To achieve this goal, many organizations spend financial and non-financial resources and sources in competitive markets. This research tests the role of top management capabilities in SMEs financial performance in the presence of financial access as a moderator. Data for this research were collected from 150 top managers and owners of Pakistani SMEs through a structured questionnaire. The hypotheses are tested in SPSS using regression analysis. The results indicate that top management capabilities significantly contribute to SMEs financial performance. Financial access also significantly contributes to SMEs performance. However, the moderating role of financial access is not significant in our sample. The results suggest that SMEs need to give enough attention to skilled employees and financial sources to compete in the market.

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