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THE MEDIATING ROLE OF GOVERNMENT REGULASTIONS BETWEEN INDIVIDUALS CHARACTERISES, NON-FINANCIAL SERVICES AND ORGANIZATION PERFORMANCE AMONG SMES IN LIBYA

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Abstract

The current study aims to examine the effect of individuals characteristics and non-financial services on the performance of medium-sized and small enterprises (SMEs) in Libya. In addition, this study investigates the mediating role of government regulations that impact the relationship between individuals' characteristics and non-financial services. A total 392 enterprises participated in this study. Structural equation modelling (SEM) was used in order to examine the causal relationship among the latent variables. The results of the study shows a positive relationship between non-financial services, individuals characteristics, government regulations and SMEs performance. Furthermore, government regulastions had a significant and positive impact on SMEs performance in Libya. On the other hand, the results indecated a insignificant relationship between non-financial services and individuals characteristics influencing SMEs performance. Moreover, the results of the study indicates that government regulations play a mediating role between non-financial services, individuals characterises, and SMEs performance among the employees of SMEs in Libya.

Keyword: *Non-financial services, individuals characteristics, performance of small and medium-sized enterprises (SMEs)*

Introduction

In the aftermath of the global financial crisis (2008-2009), there were more growing interests in the important role of small and medium enterprises in employment generation and economic growth **(**Ardic et al., 2011). Maziku,Majenga and Mashenene (2014) suggest that there should be a focus on supporting and developing small- and medium-scale enterprises which are considered an essential source of economic development, productivity, employment, and creativity. In addition, they have been widely recognized as a key feature of economic activity. The fast expansion of small firm has greatly contributed to the economic development which in turn has raised the living standards. According to Cantwell et al (2010), removing barriers such as lack of financial resources and lack of technical skills, it will increase the overall living quality and developing SMEs.

The competitiveness between SMEs firm has an important role in increasing the main macroeconomic indicators. SMEs have had a considerable growth in both developed and developing countries because of its decisive economical role. Most SMEs work in a highly competitive environment while their role in

development is still in the top of policies discussions (Bhaird, 2010).

In addition to the strategic significance of SMEs in the development of developing countries, SMEs have a vital role in accomplishing the growth objectives (Abdulsaleh, 2017) including the Libyan economy. However, they encounter several economic problems such as organizational and administrative productivity, marketing, and many more problems concerned with limited access to formal finance in different sectors including banking sector (Abdesamed & Wahab, 2012).

Elmansouri and Arhur (2014) showed that Libyans SMEs face many problems such as paucity of financial resources related to innovation, deficiency of skills in innovation management, paucity of cultural innovation in the Libyan educational institutions, lack of abilities to manage knowledge and intellectual property, insufficiency of public procurement in fostering innovation in SMEs, and limited knowledge about innovation support services.

It is important to develop small and medium projects to measure performance, identify key points which can help spot weaknesses, formulate the objectives and strategies, and enhance management operations. Although there are numerous theories suggested in the area of management and performance measurement for large companies in the last two decades, there are very few bases for small and medium-sized enterprises. In addition, studies have shown that those bases are difficult to adapt in small and medium companies (Wu, 2009).

This study attempts to investigate the relationship between the most important variables in the performance of small enterprises where the researcher can introduce a new object for science and to work on more substantive solutions to the wealth problems faced by the government in important economic activities in the country. Moreover, the researcher seeks to study the impact of non-financial services and indivdual characteristics of the owner/director on the performance.

Literature review

SMEs play a critical role in driving the major macroeconomic indicators up, such as employment rate, GDP, and exports. The significance of SMEs Libya roots in the fact that non-diversification of economic activities has made the Libyan economy suffer a lot. These economic activities mostly focus on construction sector as well as oil and gas sectors. The latter forms approximately 70% of the Libyan GDP, just over 90% of government revenues, and almost all the exports of the country except for very few other products such as dates and fisheries. Hence, creating a sustainable SMEs context will help Libya have a more diversified economy, supporting both non-oil and oil industries. Furthermore, SMEs could generate a crucial source of employment, which could peak to35% of workforce in low-income countries, and 70% in high-income ones (Abdul Jalil, 2015).

Abdulsaleh, (2015) argue that SMEs are more centralized in the North Western of Libya (nearly 46% of total number) than in the North Eastern (approximately 36%). Around 80% of SMEs are privately possessed and managed by individuals, whereas only 16% of them are founded in the form of small enterprise, and 3% are owned by a family. The industry of food and beverages (e.g. retail restaurants) had the first rank first in the number of both employees and firms, followed by metals and heavy metals products, wood and paper, textiles and clothing, ceramics and bricks, and furniture. Some industries create a better chance of growth than others because of their connection with bigger industries. For instance, producing handmade artifacts is connected to the tourism sector and its growth. The Libyan economy, which mostly relies on its natural resources, is probably a

promising area for SMEs of non-complex industries.

Non financial services

Matlay et al. (2006) developed feedback and assessment processes in the training activities of small firms, thus increasing the firms' human capital in the US. Furthermore, this research illustrated that human resources are increasingly considred as a valuable source of sustained competitive advantage, and well-trained employees could enhance the performance of small firms. Jagero et al. (2012) explored the on-the job training programs in the courier firms in Dar Es Salaam, Tanzania to measure workers' performance. Their study used survey methodology and questionnaires were utilized for data collection. A sample 150 workers participated in the study and were randomly chosen and proportionate samples were taken from each courier organization. They found that performance of the employees to a large extent was contingent on the amount of training that workers received. The study also indicated a significant relationship between employee performance and the job training.

Individual characteristics

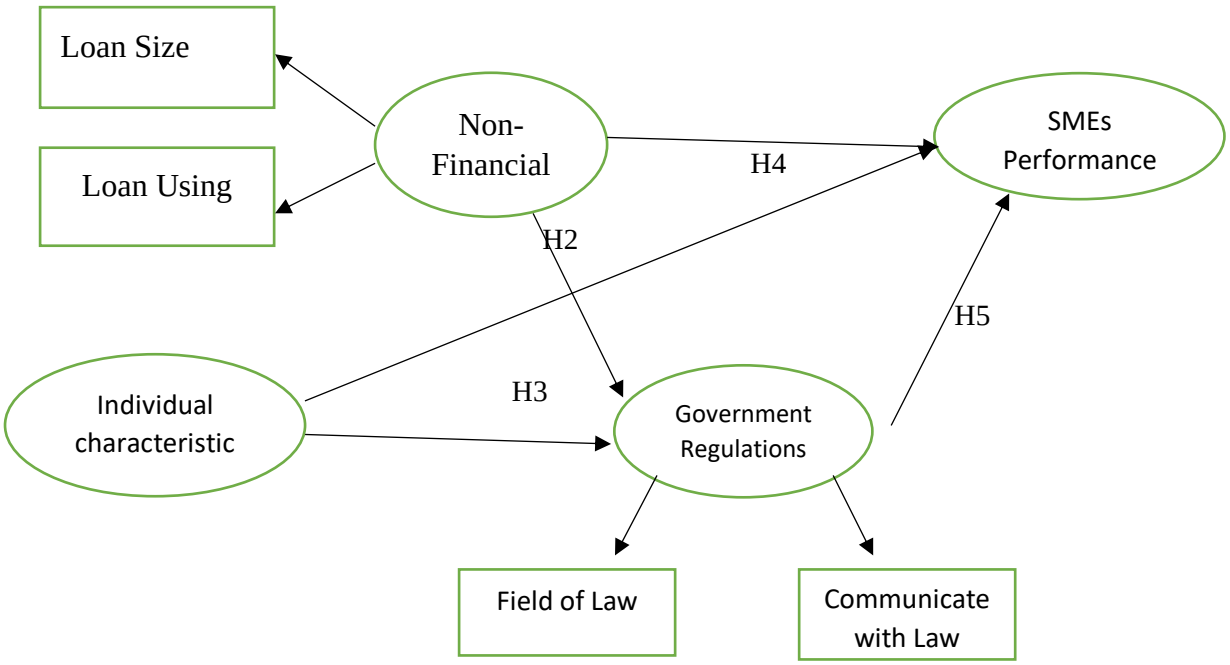
The concept of entrepreneurship has grealy demanded SMEs to have some advantages. Individual characteristics have a vital role in developing and motivating medium and small enterprises in order to achieve the best performance in the companies where it can greatly vary. The individual characteristics are also referred to as entrepreneurial characteristics. It is crucial to mention that SMEs were first created by SME owners whose individual characteristics enable them to oversee the company and accomplish success. Hence, these characteristics are vital to the success of medium and small enterprises (Bendary & El Minyawi, 2015).

According to Olanrewaju (2009), the entrepreneurial characteristics considerably impact the entrepreneurial performance of small-scale business. Hashim (2005) holds that entrepreneurial characteristics can affect the kind of corporate that is going to be established as well as how it is going to be managed. Ogundele (2007) examined indigenous firm performance and showed that individual characteristics, which are also called personal and psychological factors, impact firms' performance. Pyysiäinen et al. (2006) reported that individual characteristics, also kown as entrepreneurial and managerial skills,affect firm's performance. Therefore, it is significant to realize the individual characteristics of the SMEs owners.

Government Regulation

Both academia and government sectors have given special attention to regulations in different disciplinary areas such aslaw, economics, management, political science, psychology, history, , accounting and finance, and social administration (Baldwin et al. 2012). Ahamad and Seet (2009) state that business failure could be highly impacted by a number of factors, including lack of managerial skills, lack of organizational skills, and inability to manage a large number of employees (human resource management). Additionally, failure to direct and lead employees effectively and efficiently and poor financial management could lead to a business failure. However, there is no statistically significant relationship between such factors. Ogundele (2007) investigated the indigenous firm performance, while refering to individual characteristics as individual and psychological factors. The findings indicated that despite the different labelling, individual characteristics had an impact on the firm's performance. Likewise, Pyysiäinen et al. (2006), considering the individual characteristics as entrepreneurial and managerial skills affirms that they could affect firms' performance.

The Conceptual Framework



Figur 1. The Conceptual framework and hypotheses model

Methodology

The present study employed questionnaire to collect the primary data. The questionnaire consists of two sections. In the first section, the participants' demographic information (e.g. age, position, and education) is collected. The second section collects information about the variables of interest (non-financial services and individual characteristics as the independent variables, SMEs performance as the dependent variable, and government regulations as the mediating variable). The present study is appropriately based on a quantitative research design since it intends to measure the organizational performance among SMEs in Libya by testing the hypothesis that demands a quantitative technique to collect and analyze the data. Accordingly, a self-administered survey was used to collect the data on the basis of a stratified random sampling method. The sample of SMEs was classified into small and medium enterprises.

Measures

The structured questionnaire consists of a 5-point scale (approximated equal interval): strongly disagree, disagree, neutral, agree, and strongly agree. Interval scales are continuous scales and are called quantitative or metric scales. Its significance is that the differences between the scale points are equal. For example, the distance between the rating of '3' and '4' is the same as the distance between the rating of '1' and '2'. Accordingly, any mathematical procedure such as mean or standard deviation could be worked out. The questionnaire included standardized questions in a readable fashion that was ideal for statistical analysis. The questions were couched in simple English words. Table 1 displays the measurement of the variables.

Table 1: Illustrates the measurement of the variables.

Variables	Dimension	Source	Number of questions
Non-financial services	skill, General Management	(Kickul et al., 2007; Kuzilwa, 2005).	12
Individual characteristic	Attitude	Lucky and Minai (2011)	4
Government regulations	Field of Law, Communicate with Law	Dorothy Watson and Sylvia Blackwell. (2007)	17
SMEs Performance	net profit, output, investment, employment	(Kuzilwa, 2005; Ekpe. (2011)	12

Analysis and Results

Descriptive Statistics for variables

Standard deviation (S.D) and mean of the measurement scales were measured. As shown in Table 2, the highest mean was individual's characteristics with 3.628 out of a maximum 5 making up 72%. However, field of laws had the lowest mean with 3.184 making up 63%. In addition, skills and general management were similar in mean with 3.221 and 3.28 respectively making up 66% while performance had 3.510 and the mean of these values (overall mean) was 3.354 out of 5 or 67%. Furthermore, the standard deviations of all the variables ranged from 1.002 to 1.143, thus indicating the presence of a noticeable acceptable variability in the data

Table 2. Descriptive statistics of all the constructs

Non-Financial Servesices (FIN)	Skills	SK	6	3.2217	1.08127
	General Managament	GM	3	3.2874	1.14364
Individual Characteristics	Attitude	INC	4	3.6288	1.05509
Government Regulation (GR)	Field of Law	FL	9	3.1843	1.00209
	Communicate with Law	CL	6	3.3300	1.11617
SMEs Performance	Performance	PE	5	3.5105	1.02684
Overall			33	3.36045	1.07085

Reliability and Composite Reliability

Two kinds of reliability test were administered in the present study, namely Cronbach's alpha and composite reliability (CR). The findings show the Cronbach's alpha values were in the range of 0.749 to 0.908, while composite reliability values ranged between 0.789 to 0.955. Thus, all the values of the composite reliability and reliability constructs exceed the suggested value of above 0.70. Table 3 summarizes composite reliability and reliability (Cronbach's alpha) of all the constructs.

Table 3 Cronbach's alpha and composite reliability of all the constructs

Non-Financial Servesices (NON-FIN)	Skills	0.845	0.877
	General Managament	0.749	0.789
Individual Characteristics	Attitude	0.902	0.906
Government Regulation (GR)	Field of Law	0.821	0.793
	Communicate with Law	0.908	0.955
SMEs Performance	Performance	0.787	0.790
Overall		0.890	0.860

Discriminate Validity

Table 4 summarizes the results of the Average Variance Extracted (AVE), indicating that the value of the test was less than the recommended value (0.5) for one of the PE constructs. Barclay et al. (1995) and Fronell and Larcker (1981) argue that Average Variance Extracted (AVE) should be greater than 0.5; however, value 0.4 is acceptable. Although composite reliability (CR) is greater than 0.6, the convergent validity of the construct is still adequate. The Average Variance Extracted (AVE) was 0.5 in the present research

Table 4 Discriminate validity for latent variables (AVE)

	CR	AVE	FL	SK	INC	PE	CL	GM
FL	0.887	0.473	**0.687**					
SK	0.832	0.503	0.544	**0.681**				
INC	0.907	0.711	0.411	0.323	**0.843**			
PE	0.792	0.448	0.590	0.619	0.320	**0.669**		
CL	0.822	0.440	0.651	0.654	0.360	0.681	**0.664**	
GM	0.783	0.554	0.232	0.606	0.037	0.302	0.284	**0.745**

Confirmatory Factor Analysis (CFA)

CFA was conducted in order to remove any latent variable that was not well fit and hence to develop the best possible measurement model. The other reason for conducting CFA was to assess validity, reliability, and unidimensional of multi-item measures. The convergent validity of each variable was examined using CFA analysis method. Furthermore, CFA has several functions such as measuring the measurement error in the framework, testing the loading factors in each construct, and confirming the instruments themselves which are associated with the latent variables. Hence, CFA is administered to specify the set of factors, construct loading items, and confirm the measurement requirements (Bollen, 1989).

Measurement Model

As mentioned above, CFA analysis method is used to assess the convergent validity of each variable. The CFA of the exogenous and endogenous variables is explained in the following sections. This study measured the impact of three exogenous variables (individual characteristics, non-financial services, and government regulations) on one endogenous variable (SMEs performance) among SMEs in Libya. According to the measurement model, the ratio of the chi-square to the degree of freedom was 2.147, less than 5 and RMSEA was 0.054 less than 0.10, thus demonstrating a good model fit (Schumacker & Lomax, 2010). Other measures showed the GOF of the model (CFI = 0.926, IFI= 0.927, TLI= 0.920, GFI = 0.903). They all were above 0.9 cut-off, thus indicating the model's good data fit (Bagozzi & Yi, 1988; Byrne, 1998; Hair et al., 2006; Ho, 2006). Table 3 summarizes the statistical measures of the measurement model of the exogenous and endogenous variables. Figure 2 and Table 4 show the measurement model of the endogenous and exogenous variables.

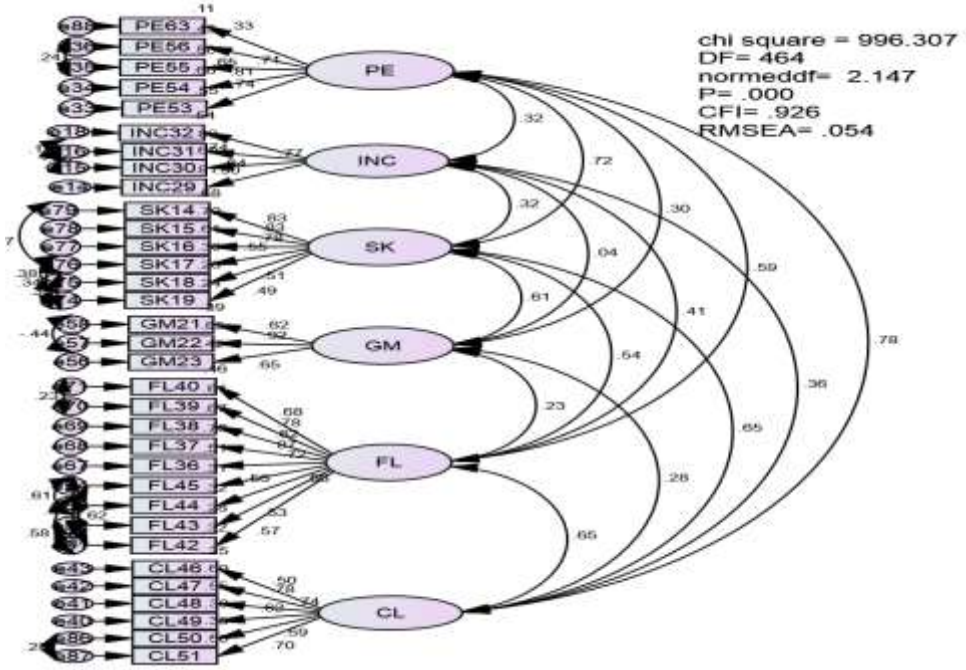


Figure2. The measurement model of the variables

Table 5. Fit indices of the final measurement model

Variables	χ^2	d.f	Ratio	P-value	CFI	IFI	TLI	RMSEA
Measurement Model	996.307	464	2.147	***	.926	.927	.920	.054

Structural Model

Five direct hypotheses and two indirect hypotheses were assessed in the present study. A hypothesized model was designed to determine the relationship among the constructs which are tested by GOF such as NFI ratio, IFI, TLI, CFI, and RMSEA to see if the constructs fit the data. Table 6 illustrates the results of the structural model. The value ratio of the chi-square to the degree of freedom is 2.438. in addition, CFI (0.906), IFI (0.907), TLI (0.901) fit the data well and the results also indicate that RMSEA (0.061), which is less than 0.10, indicates a good model fit (Schumacker & Lomax, 2010). Figure 3 and Table 6 indicate the structural model (Goodness of Fit Indices).

Table 6. Fit indices of the Structural Measurement Model

Variables	χ^2	d.f	Ratio	P-value	CFI	IFI	TLI	RMSEA
Stractural Model	1148.511	471	2.438	***	.906	.907	.901	.061

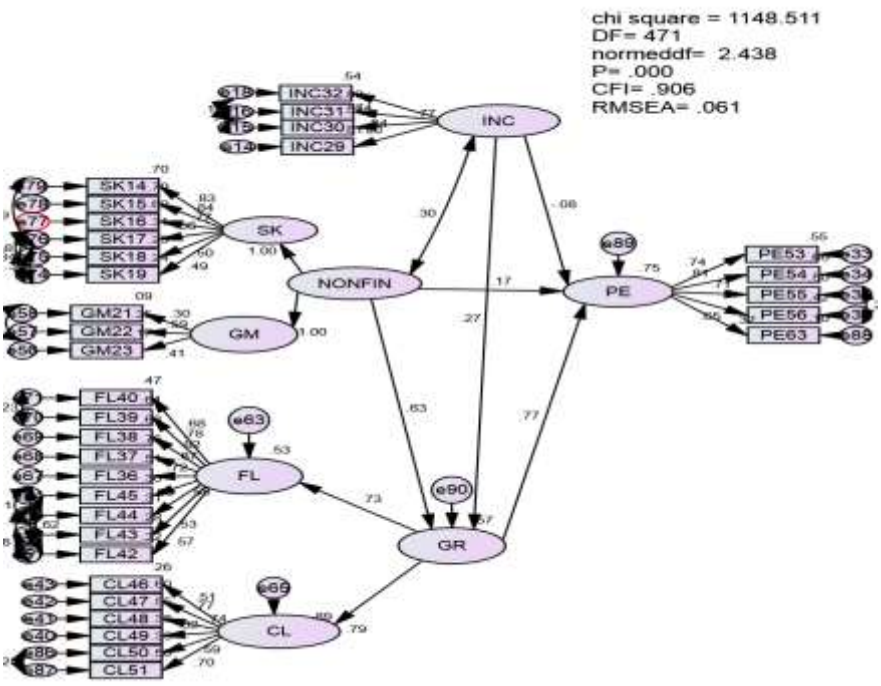


Figure 3. The structural model of the variables

The squared multiple correlation or R^2 of organization performance and government regulation were 0.75 and 0.57, respectively. As shown in Figure 3, all the exogenous variables (non-financial services, individual characteristics, and government regulation) explained 75% of the variance in organization performance as well as non-financial services, while individual characteristics explained 57% of the variance in government regulations.

Direct Hypotheses Results

The present study tested five direct hypotheses. Out of five hypotheses, which are connected to the direct path between the variables, two were unaccepted and three hypotheses were accepted. Table 7 shows that direct hypotheses assess the results of the structural model. The present study assessed four main hypotheses related to its objectives. As illustrated in Table 7, government regulations is the first factor impacting the performance of SMEs in Libya. The result indicates that government regulations had a strongly significant and positive impact on SMEs performance in Libya (β = 0 .772; C.R =5.818; P = 0.000), thus H5 is supported. Non-finncial services had a significant and positive effect on government regulations, thus H2 is supported (β =0.630; C.R = 5.217; P = 0.000). In addition, individual characteristics had a significant and positive effect on government regulations (β = 0 .268; C.R =4.872; P = 0.000), therefore H1 is supported. However, the present findings revealed that non-financial services and individual characteristics had insignificant effect on SMEs performance in Libya, thus implying that H3 and H4 are not supported. Table 7 presents the results of the direct hypotheses.

Table 7. The **results of hypotheses testing of the structural model**

Hypotheses	Exogenous Variables	Endogenous Variable	Std. Estimates	C.R	P-Value	Result
H1	INC	GR	0.268	4.872	0.000	Accepted
H2	NON-FIN	GR	0.630	5.217	0.000	Accepted
H3	INC	PE	-.082	-1.516	0.129	Not Accepted
H4	NON-FIN	PE	0.168	1.907	0.056	Not Accepted
H5	GR	PE	0.772	5.818	0.000	Accepted

Indirect hypothesis results

The Mediation Role of Goverment Regulations in the Relationship between Non- Financial Services and SMEs Performance.

According to Table 8, non-financial services had an impact on government regulations (standardised coefficient = 0.630). Likwise, the finding shows the direct impact of government regulations on SMEs performance (standardised coefficient = 0.772). Based on the direct relationship between non-finicial services and SMEs performance (0.168), the mediation effect of government regulations on the relationship of non-financial services and SMEs performance was also explored. The findings show that there was a strong significant relationship and that non-financial services indirectly had an impact on SMEs performance through their impact on government regulations with coeffeicint 0.489 (Table 8). Therefore, the results of the peresent study suggest that government regulations fully play a mediating role in the relationship between non-finicial services and SMEs performance.

Table 8. The structural parameters of the mediation role of government regulations in the relationship between non-financial services and SMEs Performance (PE)

	Model	Direct effect	Indirect effect	Significant of indirect effect	Mediation type
H1	Non-Financial Services ---> Government Regulation	0.630	---	P=.000 significant	
H2	Government Regulation -----> SMEs Performance	0.772	---	P=.000 Significant	
H3 and H4`	Non-Financial Services PEU ---> SMEs Performance Via Government Regulations	0.168	0.489	P=.000 More than.08 significant	Full Meditation

Source: The mediator effect is significant if it exceeds the value 0.08 (Hair et al., 2006).

The Mediation Role of Goverment Regulations in the Relationship between Individual Characteristics and SMEs Performance.

Table 8 shows that individual characteristics had an impact on government regulations with standardised coefficient 0.268 and that government regulations had a direct impact on SMEs performance withthe standardised coefficient 0.772. Therefore, as the direct relationship between individual characteristics and SMEs performance was not siginficant (path coefiencint=-0.086). Regarding the mediation effect of government regulations on the relationship between individual characteristics and SMEs performance, a significant relationship was found. It was also found that individual characteristics indirectly impacted SMEs performance through their impact on government regulations (0.206). Therefore, the results of the present study indicated that government regulations hada full meditaiting role in the relationship between individual characteristics and SMEs performance.

Table 8. The structural parameters of the mediation role of Government regulations on the Relationship between individual Characteristics and SMEs Performance (PE)

	Model	Direct effect	Indirect effect	Significant of indirect effect	Mediation type
H1	Individual characteristics ---> Government Regulation	0.268	---	P=.000 significant	
H2	Government Regulation -----> SMEs Performance	0.772	---	P=.000 Significant	
H3 and H4`	Individual characteristics ---> SMEs Performance Via Government Regulations	-0.086	0.206	P=.000 More than.08 significant	Full Meditation

Source: The mediator effect is significant if it exceeds the value 0.08(Hair et al., 2006).

Discussion and Conclusion

The main purpose of the present study was to identify the relationship between non-financial

services, individual characteristics, government regulations and performance of SMEs in Libya and to measure the mediating role of government regulastions in the relationship btween non-financial services, individual characteristics, and SMEs performance. This study showed that the non-financial services had no direct effect on SMEs performance; however, it had direct effect on goverment regulations. Thus, governement regulations play the full mediation role between non-financial services and SMEs performance in Libya. Furthermore, indinvidual charactrstics had no direct effect on SMEs performance. Nevertheless, it had a direct effect on goverment regulations. Accordingly, governement regulations fully mediate the relationship between indinvidual charactrstics and SMEs performance.

The present findings have some certain implications First, it suggsts that the overall SMEs performance and high level productivity can be achieved due to the mediatation of government regluations. Second, the present findings can help SMEs woners and operators to understand the current challaenges and to focus on the relevant issues in order to increase their growth and performance. Third, this study will contribute to enhancing knowledge by proposing a research model or framework for SME financing, which will serve as a map (direction and guide) for students and researchers in SME finance and management. Finally, the present study hopes to pave the way for further research in this area or on the given subject.

According to the director board,SMEs serve as service roles and controlling center. Further,they provide resources and expertise and increase business opportunities by relying on personal relations and networks. Ideally, the board of directors should specialize in areas which are vital to the core business of the small firms and own relevant skills and knowledge and exclude positions from the firm (Karoui et al., 2012). Concerning government regulations, the stakeholder approach to regulatory reforms need to be adopted. The participants of the regulatory reforms involve regulators, governments, industry associations, SMEs, professional bodies, the community, and academics. Stakeholders need to be consulted at all the phases of the development of regulatory reform. In this regard, academics could have a major role as an independent source in providing a database for policy development. Organizational impact analysis is a viable method for regulators and governments in the private and public sectors to enhance the management of SMEs. Governments and regulatory bodies should manage, monitor and encourage SMEs to effectively conform with government regulations in order to meet regulatory requirements and objectives.

The present research examined SMEs in Libya showed that non-financial services are positively correlated with performance. It was also illustrated that there is a moderate impact on the size of firms in the relationship between the performance of SMEs and non-financial services. Accordingly further research needs to consider the effect of moderate volume in large-scale enterprises. Based on the discussion of government regulations, the researcher recommends increasing the concentration on the performance of SMEs.

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