Determinants of Sustainable Performance of SMEs: A Proposed Framework

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Abstract: Small and Medium Enterprises (SMEs) play a vital role in the sustainable development of a nation. They are the core of an economic system as they provide employment and contribute to GDP. The need for their sustainable performance is therefore important. This paper presents a conceptual framework aimed at investigating the factors that influence the sustainable performance of SMEs. Though, the number of researches that focused on SMEs seem to increase, previous literature reveals there is a dearth of studies exploring the factors that influence SMEs performance from sustainability perspectives, whether conceptual or empirical. Moreover, the findings of the few studies in this area were inconsistent. The study identifies five factors that are necessary and applicable to the sustainable performance of SMEs. The five factors are ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance, and innovativeness. The study suggests an empirical investigation to test the moderating effect of innovativeness on the relationship between ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance, and sustainable performance of SMEs.

Keywords: SMEs, Innovativeness, Sustainable Performance.

I. INTRODUCTION

Small and Medium Enterprises (SME) have continued to gain more importance for their role in global economies. The significance of SMEs is hinged to their contribution to economic growth and development by helping to reduce poverty and the provision of employment in their respective nations. They play an important role in the supply chain of key industries, contribution to export earnings, value addition to per capita-income and GDP to both developed and developing economies.

More importantly, in developing countries such as Nigeria, the SMEs have been recognized as one of the effective means of eradicating poverty in these countries. For instance, SMEs contribute greatly to the employment generation as well as economic development in the country. The contribution of SMEs to employment generation in Nigeria was 25% and 46.54% to GDP in 2016 (SMEDAN, 2017).

As business organisations, their success depends very much on their practices and how well they are being managed. With regards to the performance and sustainability of SMEs, some continue to maintain their success while others appear to be less successful. The successful SMEs can perform and sustain because of their ability to adopt effective factors that influence their performance. However, in the case of the unsuccessful SMEs, most often, they failed because of bad business practices and also mismanagement (Abraham & Balogun, 2012a; Adeusi, Akeke, Aribaba, & Adebisi, 2013; Congo, 2002; Dunford, 2000; Worldbank, 2017).

The review of the literature shows that although the number of researches that focused on SMEs seems to increase, an evaluation of past studies highlights several limitations with the studies. These limitations include inadequate information about the factors that influence the sustainability performance of SMEs. However, even among the few studies that examined sustainable performance in developed nations, the studies failed to investigate and conceptualize major factors that predict the sustainable performance of SMEs (Bottery, 2014; Prasad & Vatsal, 2013; Sustainable & Studies, 2007; Venkatraman & Nayak, 2015). Furthermore, research on previous studies on SMEs are mostly focused on government support, training, entrepreneurship skills, marketing, competition and financial performance of SMEs (Almubarak, 2016; Moorthy et al., 2012; Neeta Bapokirak Geoffre Nambira Geroldine Gomxsos, 2016; Suryaningrum, 2012; Zheng, Yang, & McLean, 2010). Considering the importance of ethical sensitivity, knowledge sharing intensively, access to ICT, access to finance and innovativeness to firm’s performance, very few studies examined the aforementioned variables on the sustainability performance of SMEs (Kauffman & Riggins, 2012; Pereira-lópe, 2016; Qammach, 2016; Singh, 2012). Additionally, there were inconsistent findings in the few studies that attempted to investigate the relationship between the factors and the sustainable performance of SMEs.

The study considers Triple Bottom Line theory (Elkington, 1998) and Resource base View Theory (Barney, 1991; Mahoney & Pandian, 1992) relevant and suitable for the research. The TBL gives room for the integration of sustainable business practices that may lead to sustainable performance while RBV offers opportunities for competitive advantage based on firm’s resources and capabilities. Consequently, the variables, Ethical sensitivity, Knowledge sharing intensity, access to ICT, access to Finance and innovativeness were carefully selected based on their perceivedaffiliation to these theories that exhibit trends of sustainability and firm’s performance. Given this information and research gaps, this paper attempts to investigate the factors that are essential to influence the sustainable performance of SMEs as identified and promoted in the literature and previous studies. For this purpose, the paper is presented in four sections. The following Section Two examines the concept of sustainable
performance. Next, Section Three highlights the five factors that are considered not only important to the performance of SMEs but also their sustainable performance. Finally, Section Four presents a short conclusion of the paper.

**Sustainable Performance**

Sustainable performance is a strategy of the practice of sustainable development (Kocmanová & Dočekalová, 2011). The concept of sustainable development arises in an attempt to meet the needs of the present generation without compromising the ability of future generation to meet their own needs. Sustainable performance can also be viewed as the integration of economic, social and environmental performance. Yet some literature indicate that, the concept of sustainable development arose as a result of the failure from the conventional development to fight poverty (Kolk, 2016).

In order to ascertain the sustainable performance of an organisation, the management system of the enterprise is taken in to recognition (Ciemeleja & Lace, 2015). This relates to providing effective and efficient sub-systems, taking into respect deviations from the state of balance. The practical application of sustainable performance of SMEs requires processes that support sustainability of an enterprise. This process is mutually functional that insists each management level decision should be implemented through dimensions of sustainability. Thus, the quality of an SMEs management influences the total result as well as innovative potential of the SMEs (Ciemeleja & Lace, 2015).

In recent times, firms are beginning to adopt an account frame- work with three parts used for performance measurement namely; Social, Environmental and Financial. Thus, a balanced and multi-dimension theory known as the Triple Bottom Line (TBL) became more relevant as an effective tool for measuring sustainable performance and it said to give greater value (Rashid, Jabar, Yahya, & Samer, 2015; Venkatraman & Nayak, 2015). TBL provides an opportunity for the integration of sustainable business practices that may lead to sustainable performance (Rashid et al., 2015). However, Sustainable performance could be said to be dependent on the firm’s deliberate efforts to ensure the success of green activities implementation (Rashid et al., 2015). In a bid to achieve sustainable performance, economic, social, and the environmental dimensions must prevail (Venkatraman & Nayak, 2015).

Sustainable performance comprises of economic, social and environmental performance. Previous studies by Rennings, Schroder and Ziegler (2003) and Connelly and Limpaphayom, (2004) in established relationship were carried out by pairing each component of sustainable performance (economic, social and environmental), rather than relating all the three together within the mainstream. However studies by other (Balabanis, Phillips and Lyall (1998), Brinko et al., (2015); Hillman and Keim (2001) and Waddock and Graves (1997) accept sustainable performance collectively. They argue that these components cannot be dealt with individually, because they have relationships with each other (Venkatraman & Nayak, 2015).

**Economic Performance**

Economic performance needs to be evaluated and analyzed. There are several techniques have been developed for the purpose of assessing economic performance. To increase their organisational economic performance, there are simple methods which are to satisfy the major wish of owners and investors of the business. From this point of view, it is significant to define the firm ability to increase value to give adequate return on their owners or investments. To maximize and increase value on a long-term are deliberated as the basic objectives of most of the businesses. The main approach to organisational performance assessment is the classical one that relies on the monitoring of standard indicators of the return on assets (ROA), return on equity (ROE), and the return on sales (ROS), return on capital employed (ROCE) that are common for managers to evaluate financial performance of their organisation (Soh, 2005).

**Social Performance**

Social performance is defined as the effective interpretation of mission of the institution into practice that is in line with the accepted social values. Social performance is about making the institutional social mission a reality, important element of social performance is “safety management systems “, “Occupational health” and the “Safe Company” programme. The importance of the social measurement is principally in the relationship with human resources. The economic view shows that, a man’s performance can be assessed as, for the amount of work he accomplishes over a precise period, labour productivity is an example of efficiency way of measuring the performance from economic view. From the social point of view, a man is able and willing to perform at optimal point if he utilizes all of his potential, feels personal satisfaction and self-fulfillment as well as develops his personality (Venkatraman & Nayak, 2015).

**Environmental Performance** measures the outcome of an organisation in terms of its ability to meet up environmental standards. In a bid to create high value, firm’s owners most centre all the features of environmental impact that would offer a complete image of their organisation. Such impacts include the organisational environmental behavior in the sense of environmental responsibility. Literature reveals that, environmental creativities also create economic benefits (Kocmanová & Dočekalová, 2011; Kushwaha & Sharma, 2016). The optimization of technologies that reduces resources need, introduction of cleaner technologies, environmental management systems and other charitable tools lead to a harmless development in the organisation environmental status. Integration of environmental and quality management systems has generated new prospects for organisation such as lower consumption of assets, developed relationships with the authorities, the communities, external and internal investors (Kocmanová & Dočekalová, 2011).
Sustainable performance, therefore, comprises of economic, social and environmental performance. Previous studies by Rennings, Schroder and Ziegler (2003) and Connelly and Limpaphayom, (2004) in established relationship were carried out by pairing each component of sustainable performance (economic, social and environmental), rather than relating all the three together within the mainstream. However studies by other (Balabanis, Phillips and Lyall (1998), Brinko et al., (2015); Hillman and Keim (2001) and Waddock and Graves (1997) accept sustainable performance collectively. They argue that these components cannot be dealt with individually, because they have relationships with each other (Venkatraman & Nayak, 2015).

II. THE DETERMINANTS OF SMES SUSTAINABLE PERFORMANCE

The existence of organizations such as SMEs depends very much on their ability to sustain their financial, economic and environmental viability. Sustainable institution building needs appropriate business practices. Without sound business practices, these business organisation cannot function effectively and efficiently. Business practices are important to SMEs because they can affect not only the way these institutions are managed but also influence their organizational performance. The review of the literature appears to suggest that there are at least five factors specific practices that are relevant and applicable to SMEs. The five factors include: ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance and innovativeness. The following section explains each of the five factors.

Ethical Sensitivity

Ethical sensitivity is linked to the sustainability performance of SMEs. Ethics is identified as a division of philosophy which relates to principles of good and bad (Carreira FA, Guedes MDA, 2008). Principles of ethics give guidelines for practices in the Organisation, because they depict what is “right”. Ethics support businesses in making moral decisions and taking ethical actions (Smith GE, Barnes KJ, 2014).

Ethical sensitivity focuses on environmental and sociological components of sustainable development (firm performance). Organizational ethics integrates ethical climate and ethical culture in firms that lead to important impact on ethical decision making. These results would ultimately provide sustainable performance (Wesarat, Sharif, & Abdul Majid, 2017).

The concept of organizational Ethics provides the means Long-term business. It is very important that Business remain ethical to stake holders under conditions of uncertainty. Firms are also expected to serve sustainable development not only for the benefits of themselves but also the interest of others in society (Wesarat et al., 2017).

In business organization, the aspiration for better productivity and profit maximization have been overtaken by sustainable performance. Organisations that focus on profit only often make short-term decisions without concern for long-run sustainable benefits.

Previous studies have revealed the evidence that show the linkage between ethics and the sustainability of performance in organisations. The findings of more recent studies by Chan and Cheung (2012), Bottery (2014), Kolk (2016), Chan and Cheung (2012) and Wesarat et al., (2017) have also demonstrated the existence of the relationship between the ethical sensitivity and sustainable performance. The next focal variable is knowledge sharing intensity.

Knowledge Sharing Intensity

Knowledge can broadly be defined as a form of developed learning (Setyanti, Troena, Nimran, & Rahayu, 2013). An entity in form of human or animal, group, an organisation, an industry or society, studying through its processes of information, the potential behaviour is always changing. Knowledge information involves acquiring, distributing or interpreting information. Knowledge can be acquired formally through organisational functions as customer forum and surveys, management performance review development, or by informal behaviour in an organisation, like listening to news, reading newspaper during break period. It has been discovered that more often, formal organisational functions are carried out with a view to acquiring information or knowledge (Ozkaya, Droge, Hult, Calantone, & Ozkaya, 2015).

Huber (2015) in his study is of the opinion that early concepts of organisational knowledge are perceived to have a myopic understanding of the occurrence of learning and this narrow perception might reduce the chances of coming across useful findings or ideas. He went further to explain the following view that; learning need not be conscious or intentional as supported by organisation. He is also of the view that learning neither increases effectiveness nor potential effectiveness and it may not always lead to vertical knowledge or observable behavioural change.

It has been established that Knowledge sharing intensity is one of the significant resources of SMEs (Setyanti et al., 2013) using the goal orientation theory as was previously applied by examining the relationship between the mediating role of knowledge sharing intensity and learning goal orientation in determining the effect on innovative performance. The relationship between Learning goal orientation and innovative performance was significant with knowledge sharing intensity as a significant mediator.

A study by (Fairness et al., 2015) in a competitive environment, invention is fundamental because it could enhance enhancement competitiveness at the organization, group as well as the individual levels. Related with routine, innovative performance or general performance is more difficult for three major reasons. Firstly, innovative performance contains procedures and methods not prescribed by present practices. There is no clear guideline for generating, promoting as well as realizing ideas (Fairness et al., 2015).
Secondly, innovative creativities could draw criticism for people may be conservative and resist to change. Thirdly, innovative performance requires considerable risk taking for failure is conjoint. Creative, accumulation and application of knowledge, LGO are of the view that, in a knowledge-based economy, intellectual capital and knowledge are seen to have incessantly gained appreciation as the main foundations of the competitive advantage on sustainability performance.

Access to ICT

ICT adoption is an important element for modern SMEs performance enhancement. As the small business is getting matures, the ICT is being endorsed as important tool to facilitate in reaching customers hands which will stay practical in it growing (Kauffman & Riggins, 2012). Equally important to Serrano-Cinca and Gutiérrez-Nieto (2014), as an important practice, ICT adoption reduce the operating costs related to microcredit. ICT adoption practice is needed for managing many clients to enable organisation reduce operating costs and improving efficiency.

Studies by Diniz, Jayo, Pozzebon, Lavoie and Foguel, (2014), Kauffman and Riggins (2012) and Abraham and Balogun (2012), shows that deployment of ICT is one of the powerful tools for improve performance of SMEs. According to Rozzani and Abdul Rahman (2013), ICT help operations in SMEs. Findings of the study indicate many that SMEs are rejecting the implementation of technology because of high installation cost and lack of participation from clients which affects the demand and supply in the market.

However, Congo (2002), indicates that SMEs adopting new technology would introduce additional costs as well as requires some capabilities which effect the financial performance negatively. It is however true that efficient innovative banking technologies such as management information software, credit scoring technology, Internet and, smart card operations can contribute to a drop in administrative costs, an increase in productivity of staff and improvement in the reliability and consistency of accounts. By doing this, ICT will affect the performance both in the short and long run through this, will influence the sustainable performance of the SMEs.

Access to Finance

Access to finance is the accessibility of financial capital and other related financial services to the business. Access to finance may also be seen as the accessibility of financial capitals such as debt borrow and equity for the SMEs.(SMEDAN, 2013) define Access to finance as the financial facilities provide by financial institution. Mazanai & Fatoki, (2017) defined financing as the difference between SMEs demand and supply of the necessary financial resources. Therefore, one can conclude that, the access to finance as the lack of financial and non- financial barriers in accessing financial capabilities and services.

Reports have shown that, most of the SMEs in developing nations are limited in supply of finance resources. Past studies have revealed that these constraints of accessing financial resources consequently affect the performance of these important institutions. Many studies show that efficiency of SMEs depends not only on their good practices but on their access to finance as well (Frank, Kessler, & Fink, 2010; (Zampetakis, Vekini, & Moustakis, 2011; (Wiklund & Shepherd, 2005). Therefore, the incapability of access finance of SMEs can be a constraint for their development.

However, previous studies have shown that the shortage of capital by SMEs is connected to SMEs peculiar features and strategioperation(Mazanai & Fatoki, 2017). Access to finance determines not only SMEs success but also varied phases of their development. The accessibility of finance may also be characterized by gathering up a forceful position by the SMEs and accomplishment in getting more target customers.According toSteinerowska-Streb , I . and Steiner, A ( 2014 getting adequate financial resources is defined by the firm peculiar process, characteristics and strategic activities that mark the development of the SMEs.

Innovativeness

Innovativeness refers to the process of translating an idea or invention into a good or service that creates value for which customers will pay (Akinwale, Adepoju, & Olomu, 2017; Moradi, Velashani, & Omidifar, 2017; Swink, 2000). Also it is a characteristic of individual or organisation to create or adopt new ideas, processes, product or services that are intended to increase value to the customer and contribute to the performance or effectiveness of the firm (Pawliczek & Kozel, 2015; Setyanti et al., 2013; Yunis & Tarhini, 2017).

Innovation plays a vital role in determining the long-term success of organizations. Over the years, innovativeness as an area of research has continued to be emphasized in the literature. The focus on innovativeness resulted from the realization that every organization needs innovation to achieve its organizational objectives as well as to deal with the changes occurring in the business environment as well as to compete successfully in the market.

Even the past studies that tested the direct correlation between ethical sensitivity, knowledge sharing intensity, ICT, access to finance and performance of organisations presented inconsistent findings (Iacovone, Pereira-López, & Schiffbauer, 2017; Riggins & Weber, 2013; Sila, 2014; Umar, Tanveer, Aslam, & Šajid, 2012; Wu, 2009). Furthermore, previous study by Chowhan (2016) and Swink (2000) have indicated that innovativeness has moderating effect on the relationships between strategy, HRM practices and performance of SMEs. However, this study proposed to test the moderation effects of innovativeness on the relationship between ethical sensitivity, knowledge sharing intensity, ICT, access to finance and sustainable performance. The highlight for the integration of innovativeness as a moderating variable is in line with Baron and Kenny (1986) and Jose (2015) who
suggested the use of moderating variable where relationship between variables have been in consistent. The inconsistent findings propose that the link between ethical sensitivity, knowledge sharing intensity, ICT, access to finance and sustainable performance may be influenced by moderating variable, such as innovativeness.

III. THE PROPOSED FRAMEWORK FOR DETERMINANTS OF SUSTAINABLE PERFORMANCE

Evidence from the review of the literature shows the linkage between ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance, innovativeness and sustainable performance of SMEs. For instance, previous studies by Smith GE, Barnes KJ, (2014) identified ethical sensitivity as determinant of the performance of SMEs. In another study by Setyanti, Troena, Nimran and Rahayu (2013) show knowledge sharing influences the performance of SMEs. It has been established in their study that knowledge sharing intensity is one of the significant resources in attaining sustainable performance of SMEs. Similarly, study Serrano-Cinca and Gutiérrez-Nieto (2014) indicates that access to ICT adoption in SMEs is an important element for modern business performance enhancement. As the business getting matures, access to ICT is being recommended as an essential tool to enable it expands the reach of their helping hands which will remain viable in it growing. Equally important to, as an important practice, access to ICT adoption reduce the operating costs related to business. Equally important, previous research have provided the evidence that indicate the linkage between access to finance and performance (Madrara, 2012; Singh, 2012; Tchakoute Tchuigoua, 2014; Umar et al., 2012).

The review of the literature on past studies that tested the direct relationships between ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance and performance of organisations presented inconsistent findings (Iacovone et al., 2017; Riggins & Weber, 2013; Sila, 2014; Umar et al., 2012; Wu, 2009). Furthermore, previous study by Chowhan (2016) and Swink (2000) have indicated that innovativeness has moderating effect on the performance of SMEs. Therefore, this study proposed to test the moderation effects of innovativeness on the relationship between ethical sensitivity, knowledge sharing intensity, ICT, access to finance and sustainable performance. The proposed test of the moderating effect is inline with suggestion of Baron and Kenny (1986).

Figure 1 shows the framework proposed in the study. As shown in Figure 1 the proposed framework consists of six research variables. These research variables include; ethical sensitivity, knowledge sharing, access to ICT, access to finance as independent variables, innovativeness as moderating variables and sustainable performance as the dependent variable.
The framework of the research is that the relationships between ethical sensitivity, knowledge sharing, access to ICT, access to finance and innovativeness have implications on the sustainable performance of SMEs.

IV. CONCLUSION

This paper reviews five factors that are considered important to the sustainable performance of SMEs. The five factors presented in the paper include; ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance and innovativeness. Specifically, the paper indicates that innovativeness would moderate the relationship between the ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance and sustainable performance of SMEs. These five factors were identified from the review of the literature and previous studies.

The review of the five practices suggests that these factors are linked to the sustainable performance of SMEs. Findings of previous studies have provided empirical evidence that suggests SMEs that adopt the five factors were able to not only improve their operations but also enhance their sustainable performance. This is in line with the previous and past studies that show these factors have an influence on the performance of SMEs (Kolk, 2016;; Setyanti et al., 2013; Kauffman and Riggins, 2012). The study suggests an empirical investigation to test the moderating effect of innovativeness on the relationship between ethical sensitivity, knowledge sharing intensity, access to ICT, access to finance and sustainable performance of SMEs. This paper is ongoing and the authors intend to validate the research in the future study.

REFERENCE


