

THE EFFECT OF EDUCATION LEVEL AND EXPERIENCE ON SME PERFORMANCE IN LIBYA

ALI HAMID IRHOUMAH NISSER
NORHAZLINA IBRAHIM

ABSTRACT

Small and Medium enterprise are the most important sources for development in any country. The development of SMEs in Libya today faces several challenges such poor management skill, difficult marketing, lack of modern technology and technical expertise. The main objective of this paper is to measure and estimate the effect of education level and experience on the performance of SMEs in Libya. It is assumed that both education level and experience of employees influence the performance of small and medium firms. The result showed that lacking experience and hiring unqualified staff that have weak education in their work are one of the main reasons and factors that affect SMEs performance in Libya, especially with necessity of development in the economy of Libya nowadays and the increasing competition from large companies as well as international firms aiming to invest in Libya. The study recommends paying more attention to the training of employees in SMEs in order to be capable with the challenges facing business world in the current time.

Keywords: Small and Medium Enterprises, Education Level, Experience Level, SME Performance

1. INTRODUCTION

SMEs play a very important and fundamental role in reducing poverty and in inequality in both developing and developed economies. Today SME generate and create the majority of the new jobs in developing and developed countries and considered the main source for employment in about 40% of the labour force in the world (Marwa, 2014).

The experience and education level could not be a guarantee performance small companies' success, gathering the success factors with the finance of SME can strongly increase the chances of firms' growth and reduce poverty in Libya (Jankelowitz, 2015).

Small and medium will attempt to achieve their prospects and to be sustainable contributors to development and growth; in addition, to ensure that the invested money will be utilized effectively. As Libya conditions are exclusive and unique, and the social and economic implications of the small business development have an added urgency, more studies are needed to look for the factors that affect the performance of micro business in Libya. These studies are very important to improve the strategy of business, theory of development and to direct the policy makers and the focused investors of SME (Abdussamed and Abd Wahab, 2012) on the modality of development and supporting both the public and private sectors in in as especially Libya. It is better to note that experience and education level, however, do not guarantee performance of the small company's success. Gathering the success factors with the finance of SME can strongly increase the chances of firms' growth and reduce poverty in Libya (Zarook et al., 2013).

Theoretical impact on performance SMEs where that experience and knowledge can enhance both strategic decision making and improve internal organization and procedures. Specifically, the depth of experience in the same type of approach can make a difference in performance firm development (Harris et al., 2014). In addition, from the standpoint of the SMEs theories that capital and the performance of micro business largely depend on the firm ability to generate internal finance and secure external finance (Aminu & Shariff, 2014).

2. THE OBJECTIVE OF THE STUDY

The main objective of this paper is to estimate and measure education level and experience impact on the performance of SMEs in Libya. It is assumed that both education level and experience influence the performance of small and medium firms, including. Thus, this paper shows and reviews the multifarious illustrations and explanations concerning the SMEs business performance.

3. PROBLEM STATEMENT

The development of SMEs in Libya today faces many problems and challenges such poor management skill, difficult marketing, lack of modern technology and technical expertise. As a result, the performance is well blow expectation compared to other lower middle-income countries (Younes, 2013). For example, access to finance in Libya is one of the major obstacles and problems that are responsible for the gross low performance of SMEs (Zarook et al., 2013).

On the other hand, The Libyan government launched the Libyan Enterprise in order to enhance the entrepreneurial culture and to provide a business support for the start-ups in Libya. Yet, Small and Medium enterprises in Libya are still struggling to develop

their performance because the lack of innovation and entrepreneurship culture all over Libya and to create a supportive environment for SMEs (Gunto, 2013).

5. METHODOLOGY

This research is a quantitative research and is based on collecting data using questionnaire in order to examine the relationship between independent and dependent variables. The analysis used multiple regression analysis. This method was considered in order to know effect of experience and education level on the performance of SMEs in Libya (Al-Ansari et al., 2013).

5. SME IN LIBYA

Today, there is an increasing number of Small and Medium enterprises in Libyan economy, although the accurate size of the sector is still unknown. whereas 180,000 private enterprises are registered officially with the tax offices of Libya, in the other hand, the senior government officials of Libya believe that there are a lot of projects in the informal sector, where it is inactive (Porter&Yergin, 2006).

As an effort to promote SMEs, in 2009 the government created a development fund for SME as well as opened the first incubator for the start-up companies. It also intends to open a lot of such incubators. furthermore, it established a collaboration partnership with Singapore in order to acquire information, skills and knowledge to develop a full-fledged SMEs policy throughout Libya (Gunto, 2013).

Most SMEs have implemented their business outside the formal economy in order to obviate the taxation. In fact, SMEs companies report a lack of specialised skills and experiences, prompting them to hire foreign labour. In addition, it was difficult for the private sector to access the priced capital or the basic banking services appropriately. moreover, the contractor does not have the effective support of the government as it nearly takes 100 days to start a business (Porter and Yergin, 2006). On the other hand, the development of SMEs in Libya today faces severe limitations in management skill, marketing, modern technology and technical expertise. As a result, the performance is well below expectation compared to other lower middle-income countries (Younes, 2013).

6. THE BUSINESS PERFORMANCE OF SME

Micro business performance is a concept that often discussed in various studies, but rarely has the same definition as firm's performance is referred to the means through which firm provide value to its stakeholders. In other words, it implies how well the managers succeed in utilizing SMEs resources. It is a measure of actions of the business firm in terms of achieving firm aims and objectives. Micro business is achieving objectives if they are carrying out activities that satisfy the needs of the owners, customers and other stakeholders. (Al-Ansari et al., 2013; Aminu & Shariff, 2014; Purcarea et al., 2013).

Due to the important role SMEs play for economic and technological development, has received much interest in literature. On the other hand, many researches have been found that firms create a better and new procedure, service or product for the market as well as it is centered on the outcomes of innovation, which positively influence the rate of commercialization and creation of the innovation (Al-Ansari, et al., 2013).

In today's economic environment, is a critical issue for academic scholars and practising managers to measure the business performance. Business performance is generally defined as "the operational ability to satisfy the desires of the company's major shareholders" (Smith and Reece, 1999). Small and Medium Enterprises are often unfavourable to reveal their actual financial performance publicly. the scholars have negotiated about the need for individual and subjective measures (for instance, the seven- point Likert scale in the empirical research) to evaluate the business performance. It is a very important thing to consider the differentiation aspects that potentially could be confounded and puzzled between subjective (also described as perception performance/perceived) and the objective measures (Madanchian et al., 2015).

According to Harris et al., (2014) theoretical impact on performance SMEs where that experience and knowledge can enhance both strategic decision making and improve internal organization and procedures. Specifically, the depth of experience in the same type of approach can make a difference in performance firm development. In addition, from the standpoint of the SMEs theories that capital and the performance of micro business largely depend on the firm ability to generate internal finance and secure external finance (Aminu & Shariff, 2014). In Libya, accessing to finance is one of the major problems and obstacles that are responsible for the gross low performance of SMEs (Zarook et al., 2013).

7. EDUCATION LEVEL

When business firms learn from the environment and experience, they will come up with a culture and behaviour that will encourage and affecting on firm performance as argue some research that there is a strong correlation between education and firm performance. In the other hand, it has been argued that the business firm that places a high importance on education may have got significantly higher level of performance. In other words, education encourages products development for better market satisfaction. However, SMEs that are characterized with education found to be able to change old traditions about satisfying market need and modernized their firm's performance to attain competitive advantage (Aminu & Shariff, 2014).

Education can enhance economic performance by decreasing the cost of production where the where the significance of the information technology in controlling and managing knowledge is important as have effect on performance SMEs, stated that the applications of IT can “play a key role in this process, by providing quick and easy access to external sources of knowledge and new and more intense communication channels with partner organizations” (Purcarea et al., 2013).

8. EXPERIENCE LEVEL

The experience is an essential part that can enhance the performance firms. On the other hand, research has showed a link between the performance firms and past business experiences. This can include direct experience in sustainability a micro business and indirect experience through working in a family business (Harris & Gibson, 2008).

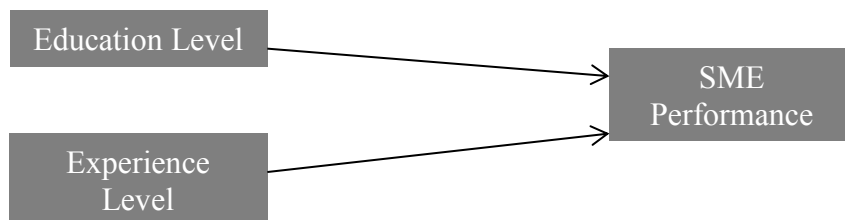
According to Harris et al., (2014) revealed that past micro business experiences have a positive influence on the performance business venture. In addition, research has shown that various characteristics can be learned and often vary based on experiences. This seems to indicate that previous business experience can play a significant role in future expectations for business success and is likely to affect future business decisions such as strategic choices and resource acquisition.

Greater experience can enhance both strategic decision making and improve internal organization and procedures as found that the depth of experience in the same type of approach can make a difference in development and firm the performance. While some saw that prior business experience can positively impact micro business performance (Pett & Wolff, 2007).

9. RESULTS AND ANALYSIS

The following analysis discusses the output of a multiple linear regression between two independent variables: the education level and experience level with the performance of SME (dependent variable). The following theoretical model is tested using multiple linear regressions:

Figure (1)
Theoretical Model of the study



The result of a multiple linear regression is achieved using the method “Enter” is indicated below:

1. MODEL SUMMARY OF MULTIPLE LINEAR REGRESSIONS

This table shows the R, R2, and the adjusted R2, and the estimate standard error, which could be used to define how the regression model fits the data well.

Table-1

Model summary of multiple regression

Model	R	R-Square	Adjusted R- Square	Std. the Estimate Error
1	.671 ^a	.440	.441	.41755

a. Predictors: (Constant), education level, experience level

"R" column symbolizes R value, which it is a multiple connection coefficient. R could be considered as one measure of the prediction quality of the independent variables; in this condition (education level, experience level) and the dependent variable (SME performance). A value of (R= 0.671) shows a high standard of prediction in the model.

The "R Square" column symbolizes the R2 value (also it is called the determination coefficient), which is the rate of variance in the dependent variable that could be explained by the independent variables (technically, it is the variation ratio that accounted for by the regression model above and beyond the mean model).

As shown in the model summary table, a value of (R² = 0.440) that the independent variables (education level and experience level) all together explain 44% of the variability of the dependent variable (SME performance), which is considered a significant interpretation percentage that shows a considerable level of correlation between the independent and variables in the model of

the study. However, it is also need to be explained "Adjusted R Square" to strictly report the data and information. As found that the difference between Adjusted R² and actual R² is very small (0.004<1). Therefore, the fitness of data is considered high.

2. ANOVA OUTPUT

The F-rate in the below table ANOVA checks and tests whether the comprehensive multiple regression model is a good fit for the data. The table indicates that the independent variables statistically significantly predict the dependent variable, $F(3, 301) = 102.668$, giving Sig. = .0000 (i.e., the regression model is a very good fit of the data).

Table-2

ANOVA OUTPUT

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.681	2	17.894	101.522	.000 ^b
	Residual	66.403	301	.174		
	Total	120.084	384			

a. Dependent Variable: SME performance

b. Predictors: (Constant), education level, experience level

The result in ANOVA table above also confirms that the causal relationships between the three variables proposed by the model are well supported.

3. ESTIMATED MODEL COEFFICIENTS

The regression coefficients (B) symbolize the medium change in the dependent variable for single unit of change in predictor (independent) variable however, holding the other predictors in the constant model. This statistical control that regression provides is very important because it separates the role of one variable from the others in the model. General form of linear regression equation is to predict the dependent variable (SME performance) from the variables (education level and experience level) is:

$$\text{Predicted SME performance} = 0.823 + (0.366 * \text{education level}) + (0.178 * \text{experience level})$$

This regression equation is acquired from the table of Coefficients, as below:

Table-3

The Coefficients of multiple regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.823	.193	.366	4.270	.000
	X1_ education level	.380	.149	.178	2.635	.009
	X2_ experience level	.198	.044	.178	4.430	.000

a. The Dependent Variable: SME performance

The Unstandardized coefficients (Beta) set forth the differences between the dependent variable (SME performance) the independent variables and the mediator variable while the other independent variables are remaining constant. Where the p -value Sig. = (.009, 0.000) for education level and experience level, these Sig. values indicate that for each term tests the null hypothesis that the coefficient is equal to zero (no effect). Therefore, the study accepts (H1), (H2), and all together and reject the null-hypothesis of each variable.

4 CONCLUSION

The literature shows that SME could achieve the objectives if they are carrying out activities that satisfy the needs of the owners, customers and other stakeholders. This research a quantitative design will be employed by using questionnaire to collecting primary data which will be used to investigate the relations between independent and dependent variables. The result found that both the level of experience and education level are significant factors in developing the performance of SMEs in Libya, especially with the fast development in economy nowadays and the increasing competition from large companies as well as international firms.

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ALI HAMID IRHOUMAH NISSER
Faculty of Economics and Muamalat (FEM)
Islamic Science University of Malaysia Nilai (USIM)
Email: alihamid320@yahoo.com

NORHAZLINA IBRAHIM
Faculty of Economics and Muamalat (FEM),
Universiti Sains Islam Malaysia (USIM)
Email: norhazlina@usim.edu.my