Impact of Entrepreneur Characteristics on Growth of Small and Medium Enterprises (SMEs) in Khyber-Pakhtunkhwa, Pakistan

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Abstract: *This study aims to investigate the Impact of Entrepreneur Characteristics on the Growth of Small and Medium Enterprises (SMEs) in Khyber-Pakhtunkhwa, Pakistan. In this study, a cross-sectional research design, having both descriptive and explanatory features, has been employed. A total of 262 Owners/Managers of SMEs have participated in this study. The two districts Charsadda and Peshawar were selected purposely and the respondents were selected by using a simple random sampling technique. The data were analyzed by using SPSS V-22 and descriptive and binary logistic regression analysis (odds ratio) was applied. The findings of the study revealed that the age, gender, education level, experience, and financial literacy of the entrepreneur affect the growth of the enterprises significantly. The study recommends that the policymakers, wherever possible, should support and launch entrepreneurship education programs to ensure that education is given to the SMEs' entrepreneurs. There is a need of having entrepreneurship study as part of curriculum at primary and secondary level. By making business and entrepreneurship subjects compulsory, this will help to equip learners with appropriate business and entrepreneurial knowledge and skills which will encourage them to start and manage business successful. There is also a need for the government to make sure that, businessmen and women are enabled to have easy access to loans with reasonable conditions from banks and other financial intermediaries for expanding their businesses. The study findings reveal that there is need to put more emphasis on how to encourage women to engage in SMEs businesses.*

Keywords: Entrepreneur Characteristics, SMEs growth, Logistic Regression, Khyber-Pakhtunkhwa

1. INTRODUCTION

Small and Medium-sized enterprises (SMEs) are undoubtedly the key drivers of the global economy (Kapitonov *et al.,* 2017). Due to their vital role in creating jobs, SMEs are generally seen as an engine that fuel the success of the economy in both developed and third-world countries (Benedict *et al.,* 2021). Recent empirical studies indicate that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income nations. In the countries included in European Union, there are 25 million small businesses, constituting 99% of all businesses; they employ almost 95 million people, providing 55% of total jobs in the private sector (OECD, 2004). SMEs and informal firms in low-income nations represent over 60% of GDP and over 70% of aggregate employment, while in middle-income countries, SMEs contribute over 95% of aggregate employment and approximately 70% of GDP (OECD, 2005).

In the economy of Pakistan, small and medium-sized industries plays a vital role since the early 1960s. There is consensus among economists and policymakers that without a well-organized system of small and medium enterprises, the foundation of industrialization cannot be made and recognized (Noronhaet *et al.,* 2021). SMEs create an entrepreneurial environment and bring flexibility to the economy against worldwide economic fluctuations. Small and medium enterprises and industries have many contributions to making labor-intensive, comparatively improved levels of efficiency and better income distribution (Azimkhan *et al.*, 2020; Aworemi *et al.*, 2010). Estimates show that in Pakistan, SMEs account for over 90% of the total businesses with an economic contribution of more than 25% to the net earnings of the country, 30% to GDP and employ more than 70% of the labor force (Raza *et al.,* 2018). The manufacturing value addition of SMEs is approximately 35%. The sector represents 25% of manufactured goods exports and nearly 53% of all the SME activities are in wholesale, restaurant, retail trade, and hotel sectors. Up to 22% of the SME's activities are in service and 20% in industrial establishments (Ahmed and Raziq, 2017). SMEs have potential in the growth of the food and agricultural sector as they can efficiently make use of limited resources and are capable of producing products that are acceptable internationally, giving way to foreign exchange earnings (Iftikhar, 2012).

SMEs in Pakistan in general, and in Khyber Pakhtunkhwa (KP) in particular, are stuck in low growth figures. Mostly, they are dealing with traditional products and have hardly adopted new technologies. In some regions, SMEs have also been developed with the objective of nurturing their growth, such as leather goods in Charsadda and Bannu, gems in Peshawar, and textiles in Swat. KP has not been a favorable habitation for SMEs owing to the impact of recent war on terror on businesses and this has led to the migration of enterprises to other provinces (Haleem *et al.,* 2019). Furthermore, the prosperity and development of SMEs operating in KP have been inferior to that of other provinces such as Sindh and Punjab (Ali *et al.,* 2010). Thus, the capability of SMEs to ignite

economic growth cannot be overstressed because they do not only lead to generation of employment opportunities, increment of tax revenue collection, but also act as incubators of innovation (Bayat et al., 2014).

The dramatic increase in the contribution of SMEs to employment was largely attributed to economizing in both the public and private sectors. However, even with this growing percentage, not many micro-enterprises grow into small-scale enterprises to significantly contribute to employment creation and economic growth. The literature available in Pakistan observed the role of several factors on an individual basis in the overall assessment of the development of SMEs in Pakistan (Ahmed et al., 2022; Dar et al.; Saleem, 2014). Some studies have examined whether the main contributing factors are industry specific or they are related to characteristics of the firm. Such studies have failed to look at the entrepreneur characteristics and how they influence the success or failure of Small and Medium Enterprises. This study provides findings on the entrepreneur's personal characteristics affecting the growth of SMEs in Khyber-Pakhtunkhwa, Pakistan.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

It is pertinent to know about entrepreneur-specific characteristics and how these personal characteristics affect the business plans of the SME sector and the entrepreneurs. Due to their significant importance, various studies have been undertaken on these personal characteristics of entrepreneurs across the globe.

Entrepreneur's Age

Results of the previous studies indicate that young entrepreneurs are more bold and risk-takers to start a business than old people. The old people may be involved in different responsibilities, and they may neglect the activities related to their business. According to *Yonis et al. (2018),* there is a negative relationship between the growths of SMEs with the age of the owners. The young owners become more successful than the old ones *(Nejati et al., 2014).* The old owners are unable to cover the debt payment of the enterprise *(Alemu & Dame, 2017*). The findings of another study indicates that age has a positive influence on micro and small enterprise growth *(Aworemi et al., 2010).* Based on the above literature, the following hypothesis was drawn:
Hypothesis 1: Entrepreneur's Age has a positive effect on SMEs growth.

Entrepreneur's Gender

Like other entrepreneurial-specific characteristics, the entrepreneur's gender also plays a vital role in an SME's efficient operation *(Slavec and Prodan, 2012; Hyder and Lussier, 2016).* In the Pakistani context, being male and female has a significant effect on the success of the enterprises. Women are overworked when they became housewives by caring for the children, cooking the meals, and managing the family. She is responsible for; when they are relieved from the above cultural responsibility, they are smart enough to be risk-takers and hard workers, enhancing the savings of the business and increasing welfare of the business *(Alemu & Dame, 2017).* When business owners are female, sales volume increases, but not profitability *(Prijadi and Desiana, 2017).* On the contrary, gender has a positive influence on the overall success and growth of micro and small enterprises *(Aworemi et al., 2010*). Based on the literature discussed above, the following hypothesis was designed:
Hypothesis 2: Entrepreneur's Gender has a significant impact on SME's growth.

Entrepreneur's Education

Entrepreneur's Education plays a vital role in business growth. Educated managers can manage enterprises properly and can forecast the risks that will happen. Education matters significantly for the survival of enterprises *(Pinkovtskaia et al., 2019).* For good entrepreneurship, education plays a key role in enhancing an individual's skills and abilities. If the trend towards establishing business increases employment opportunities increase and thus it serves as an engine to boost the country's economy *(Noor et al., 2020).* According to *Afande (2015),* education is the factor that positively affects the growth of firms. Educated business owners can allocate scarce resources and maximize the profit of their enterprises *(Alemu & Dame, 2017).* In general, education has a positive effect on micro and small enterprise growth *(Meresa, 2018).* Similarly, a study used the level of education of senior managers and exposed a positive relation with SMEs growth *(Nimalathasan, 2008).* Therefore, the researchers developed the following hypothesis;
Hypothesis 3: Entrepreneur's Education has a positive relation with SMEs growth.

Entrepreneur's Professional Experience

An experienced owner can be a successful business owner by forecasting future risks and by using the preceding best practices. An entrepreneur's experience is one of the main factors in SMEs' business operations and efficient utilization of their resources *(Omri & Frikha, 2012).* Experience is an important factor in getting external financing for the formal and informal financial institutions *(Sarwoko and Frisdiantara 2016).* The management practices such as planning, control, organizing skills, and proper staffing are executed by the experienced business owner better *(Ahmad, 2007).* The experience of the owner/manager can have a significant effect on the success of a business endeavor in terms of both the survival and growth of the business *(Kassa, 2021).* Regarding the age of business, when the business becomes older, the price will decline, and acceptance from the customers diminishes from time

to time. But if the owner applies innovative ideas then the old enterprise can be saved from devastating risks *(Afande, 2015)*. Based on the above discussion, the following hypothesis was formulated:

Hypothesis 4: Entrepreneur's Professional Experience has a positive relation with SMEs growth.

Entrepreneur's Financial Literacy

Financial education teaches a number of skills related to finance that help entrepreneurs to make and take decisions for managing their investments properly. *Wise, (2013) and Njoroge (2013)* conducted their research study on the relation between entrepreneur's financial literacy in Nairobi, Kenya. They studied the impact of lower level know-how of SMEs entrepreneur regarding financial access to banks, irregularities of information and risk factor on small and medium enterprises. They concluded that SMEs entrepreneur with lack of financial know-how had lower access to financing and hence less growth. *Adomako et al. (2016)* worked in their research study on the moderating effect of financial education on the association of business growth of small and medium enterprises and their financial access in Ghana. After analyses, it was found that financial education had a significantly positive effect on the financial access and business growth of small and medium enterprises. *Ripain et al. (2017)* found the financial literacy of entrepreneurs an important factor affecting the success of a business. *Rahmandoust et al. (2011)* found that education has a positive effect on the success of business. Thus, the following hypothesis was proposed:

Hypothesis 5: Entrepreneur's Financial Literacy has a positive effect on SMEs growth.

Conceptual Framework
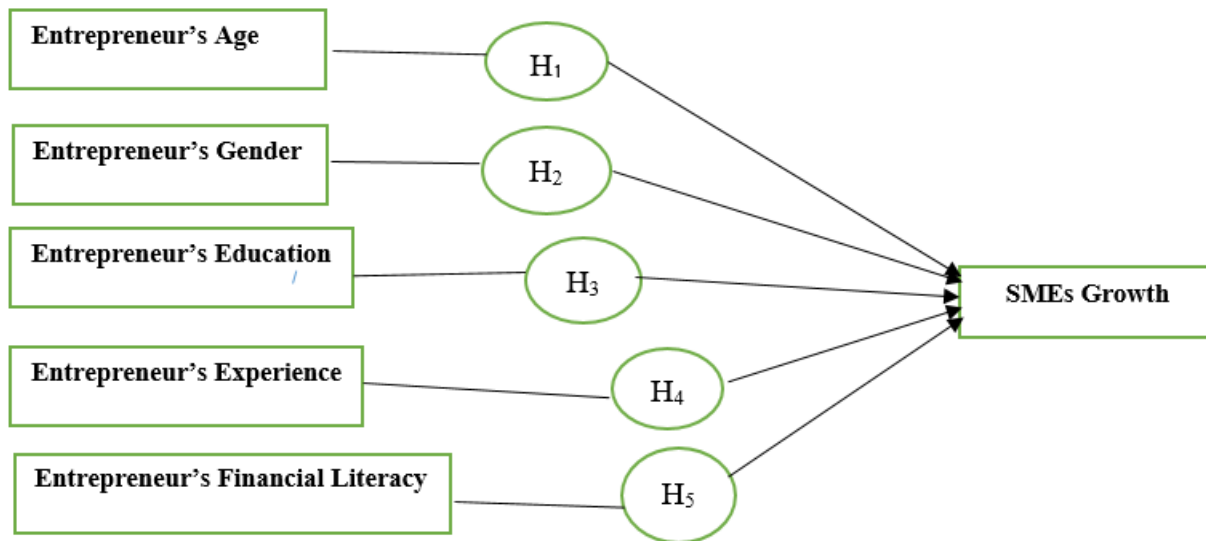
METHODOLOGY

3. METHODOLOGY

In this study, a cross-sectional research design having features of both descriptive research and explanatory research designs was employed. Quantitative approach was followed to analyze the quantitative data. The population of this study comprises owners of SMEs in KP. However, SMEs located in two districts namely Peshawar and Charsadda of Khyber Pakhtunkhwa were selected as a sampling frame for the study. The number of SMEs in KP is not definite as the Pakistan Bureau of Statistics, Sarhad Development Authority, and SMEDA report different numbers about it. According to the Chamber of Commerce and Trade Association, the total number of SMEs in the two districts was 764. The final sample of 262 respondents (176 from Peshawar and 86 from Charsadda) were randomly selected by employing the *Yamani formula (1967),* who were owners and managers along with other key employees of manufacturing sectors SMEs located in the selected district of KP. A self-administered questionnaire was designed and distributed among the targeted respondents. The use of questionnaires provided the researchers with first-hand and detailed information on matters behind the research objectives.

Pre-testing
A pre-test is important for the researcher to know that questions in the questionnaire will meet the desired objectives of the survey. Pre-testing is done through a small sample of respondents for the purpose to remove irrelevant questions from the questionnaire. According to *Robert-Lombard (2002),* a questionnaire should be tested from all sides such as the wording of questions, series of questions as well as the design of questions. The respondents from whom data was collected for pre-testing should be similar to those from whom data will be gathered in the actual survey. For recognizing problems in the questionnaire, a pre-test is essential. Through the pilot study, the questionnaire was tested. In the pilot study, a questionnaire was distributed among 20 respondents, ten from each study district, and then the respondents' results were tested through Statistical Package for Social Sciences (SPSS) version 22 to find out the reliability of the questionnaire. So the SPSS output for the reliability of the questionnaire was 0.49, which was not valid. Then the researcher removed some irrelevant questions from the questionnaire and again checked the reliability which was moved to 0.74 which was valid

Data Analysis and Model Specifications
Before analysis, data collected from questionnaires obtained from respondents was reviewed carefully and checked for completeness and consistency. Data were analyzed using the SPSS tool. Miller (2002) noted that SPSS is by far the most popular statistical package used by social scientists.

The collected data were analyzed by using descriptive statistics and binary logistic regression analysis. Regarding the model specification, the binary logistic model has been selected. The dependent variable of the study is "growth of SMEs" and "not." Hence, it is coded as the value 1 for "growing" and 0 for "not." The model is selected for analysis because the dependent variable is dichotomous and the explanatory variables are the entrepreneur personal characteristics. The mathematical formula by *Gujarati and Porter (2009)* is described as follows:

$$p_i = \frac{e^{zi}}{1+e^{zi}} \text{ and}$$

Where Pi = ranges from 0 to 1 and is Probability of participation for the ith respondent, and Zi is a function of n-explanatory variables which is also expressed as

$$p_i = \beta_0 + \beta_1 X_i + \varepsilon_i \text{-----------------------------------} 1$$

$$\text{The probability of an individual is } 1 - p_i = \frac{1}{1+e^{zi}}$$

$$\text{Therefore, odd ratios are } \frac{p_i}{1+p_i} = \frac{1+e^{zi}}{1+e^{-zi}}$$

Now $\frac{p_i}{1+p_i}$ the odds ratio in favor of growth of SMEs. It is the ratio of the probability that the enterprises would grow to the probability that the enterprises would not grow.
By taking log both sides of the Eq-1, we get

$$\ln\left(\frac{p_i}{1+p_i}\right) = P_i = \beta_0 + \beta_i X_i + \varepsilon_i$$

Where, β_0 = y-intercept, β_i = regression slopes/logit parameter, ε_i = disturbance term, X_i = entrepreneur's characteristics, and P_i = respondents' participation. Therefore, the final model for the study is

$$\textbf{logit}(Y) = \beta_0 + \beta_1 Age + \beta_2 Gender + \beta_3 Edu. + \beta_4 Exp. + \beta_5 Fin. Litracy + \varepsilon_i$$

Age of the entrepreneur/owner/manager (years), Gender (Male /Female is dummy variable where Male = 1 and Female = 0), Education level of the entrepreneurs (Schooling years), Experience of the entrepreneurs (years), Financial literacy (Yes or No)

4.   FINDINGS AND DISCUSSION
The socio-economic characteristics of SMEs entrepreneurs are analyzed in terms of their age, gender, educational level, experience and financial literacy. The observed socio-economic characteristics of respondents, which were considered for the study, are presented in the table-I
Table -I reveals that 19.1% of sampled entrepreneurs were in age of 20-30 years, 42.7% were 31-40years, 24.8% were 41-50years, while 13.4% were over 50 years. This reveals that 86.6% of the respondents were within the working age group of 36-45 years, and possibly explains the predominance of work efficiency in the analysis. The gender breakdown or sex characteristics of the respondents show that almost 86% were male while only 14% were female. This should however not be interpreted to imply that there are more male than female in SMEs in the study area. It simply reveals that more male than female entrepreneurs responded to the questionnaire. About 9.5% of entrepreneurs had no formal education, almost half of the respondents had matric and intermediate

education and 31.7% had attended college-level education while the remaining almost 10% had attended Universities. The analysis of the experience of respondents reveals that 31.7% had less than five years of experience and 45% of the respondent had ten years of experience and the remaining 23.3% of respondents had more than ten years of experience in the study area. Disaggregating the respondents into their financial literacy indicates that 39.3% of respondents had financial knowledge and 60.7% had no financial knowledge.

Table- I: Descriptive Statistics for the survey sample

Variable	Type	Frequency	%age	Cum. %age
Age	20-30	50	19.1	19.1
	31-40	112	42.7	61.8
	41-50	65	24.8	86.6
	51&Above	35	13.4	100.0
Total		**262**	**100.0**	
Gender	Male	225	85.8	85.8
	Female	37	14.2	100.0
Total		**262**	**100.0**	
Education	No education	25	9.5	9.5
	Certificates	128	48.9	58.4
	Bachelor	83	31.7	90.4
	Master	26	9.9	100.0
Total		**262**	**100.0**	
Experience	Less than 5 years	83	31.7	31.7
	5-10 years	118	45.0	76.7
	Above 10 years	61	23.3	100.0
Total		**262**	**100.0**	
Fin. Literacy	Yes	103	39.3	39.3
	No	159	60.7	100.0
Total		**262**	**100.0**	

Source: Authors own calculation

Model Diagnosis test

Before estimating, the study used different diagnostic tests for multicollinearity, which is tested by the Variance Inflation Factor (VIF) and Tolerance (TOL) test. According to *Gujarati (2009),* multicollinearity refers to a situation where it becomes difficult to identify the separate effect of independent variables on the dependent variable because of the existing strong relationship among them. Based on the rule of thumb in which the VIF of the variable has to be less than 10 and the tolerance statistics (1/VIF) has to be above 0.20 *(Field, 2009),* the findings reveal that the VIF values are all well below 10 and the tolerance statistics all well above 0.20. Therefore, it can be safely concluded that there is no collinearity problem within the data.

Another diagnostic test for heteroskedasticity as it has diverse variances between residual terms. To detect the heteroscedasticity problem, the study uses the Breusch-Pagan/Cook-Weisberg test. The result shows that even variance is constant at H_0: Prob. > chi2 = 0.000, resulting in rejection of H_0, which means that there is a problem of heteroscedasticity. To minimize this problem, the study applied robust logistic regression. Besides, Conducted the Ramsey test for omitted variables, and its result F-Statistics = 25.056 (0.3654). The result indicates that it is statistically insignificant, i.e, there is no omitted variable during the study model setting. Therefore, the model can be valid to determine variables that significantly affect SME growth in the study area.

Results and Discussion of Binary Logistic Regression

From the logit regression result depicted in the table-II, we can observe that the explanatory variables identified in the model sufficiently explain the variation in the predicted variable, which was shown by the high value of Pseudo R^2 (0.639). Moreover, the probability of chi2 is statistically significant at 1 percent, which indicates that all explanatory variables taken together are significant in explaining the dependent variable in the model. Regarding the information criteria, the value of AIC is lower than BIC therefore, the model is correctly described and appropriate. In logit estimation of the SMEs growth: The age of SMEs entrepreneur, gender, education level, experience, and financial literacy positively related with the log of odd ratio in favor of SMEs growth is statistically significant at 1 % and 5 % levels of precision. The logistic regression result revealed that a unit increase in values of variables- age, gender, education level, experience and, financial literacy of SMEs entrepreneur have a positive impact on SMEs growth as the log of odd ratio in favor of growth increased by the values 0.445, 0.759, 0.346, 0.889 and 1.378 respectively.

From the results, it is found that the age of the entrepreneurs has a positive and statistically significant effect on SMEs growth at 10% level of significance. It means that a unit change in the entrepreneur age results in a 0.445 unit change in the log of odd ratio in favor of SMEs growth. This can be due to the fact that as the entrepreneur's age increases, the entrepreneur becomes more and more experienced and aware of SME operations. This result is consistent with the finding of *Širec and Močnik, (2010); Hashi and Krasniqi, (2011).*

The coefficient of the variable 'gender' of the SME entrepreneur is 0.759, its sign is positive and is statistically significant at a 1% level of significance. It means that a unit change in the variable results in a 0.759 unit change in the log of odd ratio in favor of SMEs growth. This can be due to the fact that women have rare or fewer opportunities to control economic resources in most societies of developing countries (Bouazza et al., 2015).

The coefficient (0.346) of the education level of SMEs entrepreneur is positive and significant at 10%. This indicates that the higher qualified entrepreneurs have more probability of SME growth. This means that, if the education level of the entrepreneur increases by one unit, keeping other variables constant, the log of odd ratio in favor of SMEs growth increase by 0.346 units. This finding is similar to the works of Islam et al. (2011); Njoroge and Gathungu, (2013).

Experience-related factors can affect SME growth positively. Experience can be a means for the success and failure of the business. The logistic result of the entrepreneur experience (Coefficient = 0.889) indicates that the log of odd ratio in favor of SMEs growth can be increased by 0.889 units as the entrepreneur experience increase by one unit. Hence, this study result is the same as the findings of *Alemu and Dame (2017), Saleem (2017), and Meresa (2018).*

Financial literacy becomes essential for entrepreneurs to achieve consistent growth for their enterprises. The coefficient (1.378) of financial literacy is positive and significant (0.000) at 1%. This indicates that as the financial literacy of SMEs entrepreneur increases, their likelihood of SMEs growth will rise. This means that, if the financial literacy of entrepreneur increase by one unit, keeping other variables constant, the log of odd ratio in favor of SMEs growth can be increased by 1.378) units. As a result, the finding is consistent with the finding of *Bongomin, et al. (2017) and Fatoki (2014).*

Table II: **Logistic Regression Results**

Variables	Coefficients	Std. Error	Exp(β)/OR	Z-Statistics	Prob.
Age	0.445	1.3553	1.5604	3.2356	0.006
Gender	0.759	2.6794	2.1361	3.4570	0.001
Education	0.346	0.8768	1.4134	2.3458	0.007
Experience	0.889	3.4567	2.4326	0.9237	0.002
Fin. Literacy	1.378	2.4789	1.4593	2.7894	0.001
Constant	0.163	0.2781	1.1456	0.6635	0.006
Model information: Number of observation = 262 Pseudo R^2 = 0.634 Chi-Square = 853.901 Prob. > chi2 0.000 Akaike criterion (AIC) 179.871 Bayesian criterion (BIC) 256.532					

Note: ***Significant at 1%, **Significant at 5%,* Significant at 10%, Marginal effects could not be calculated since SPSS Version 22 was used in the analysis

5. CONCLUSIONS AND RECOMMENDATIONS
Conclusions
The overall objective of the present study was to investigate the Impact of Entrepreneur Characteristics on the Growth of Small and Medium Enterprises (SMEs) in Khyber-Pakhtunkhwa, Pakistan. From the variables, the Entrepreneur's financial literacy, gender, and experience are most likely to affect the SME's growth at a statistically significant level. On the contrary, entrepreneurship education level and age are less likely to affect the SMEs growth with a statistically significant level.

Recommendations
Given the findings, the study recommends that
- Entrepreneurs should consider education and improvement in their management skills as an important ingredient towards their success and performance of their business.
- There is a need for policy makers to make sure that education is given to the SMEs entrepreneur, if possible there is a need of having entrepreneurship a part curriculum in primary and secondary schools. By making business and entrepreneurship

subjects a compulsory subject, it will help to equip learners with appropriate business and entrepreneurial knowledge and skills which will encourage them to start and manage business successfully

- There is also, a need for the government to make sure that, businessmen and women are enabled to have easy access to loans with reasonable conditions from banks and other financial intermediaries for expanding their businesses, also soft loans should be provided to those who want to start new businesses.

- There is also, a need to put more emphasis on how to encourage women to engage in SMEs business and lastly there is a need to make sure that education on money saving behavior is encouraged among the people in the study area, this is because in this research most of the businessmen/women started their businesses from personal savings as their source of initial capital.

- Another area that requires more attention is the need to make sure that SMEs owners, managers and the employees are financial literate, together with the means of improving their business by avoiding environment that leads to business risks and entrepreneurial skills which in turn will make their business more sustainable.

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