

# The Moderating Role of Business Growth on the Relationship between Business Development Services Provided by Islamic Microfinance Institutions and Customer Satisfaction: A Study on the SMEs in Yemen

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## Abstract

This paper aims to investigate the moderating role of business growth on the relationship between Business Development Services (BDS) and SMEs owners' satisfaction on the Islamic Microfinance System in Yemen. Specifically, this paper showed the effectiveness of the business development services provided by Islamic microfinance system to satisfy the SMEs customers and how this relationship is contingent on the business growth opportunities. In examining the hypothesized model, the quantitative methodology was employed. Out of 532 questionnaires distributed, 346 ones were returned out of which only 320 were usable for the data analysis stage. The results confirmed the direct effect of BDS on SMEs owners' satisfaction and the moderating role of business growth on the said relationship.

**Keywords:** SMEs, Islamic microfinance system, business development services, customer satisfaction, partial least squares, Yemen

## 1. Introduction

One of the main objectives of the Islamic Banking and financial system is to help the poor people to improve their living standards and fairly distribute the wealth. Through the actual economic activities, Islamic financial products can help the poor people of different levels to enhance their productivity and subsequently better their life standards. Therefore, Muslims, as a part of their duty, are required to effectively contribute to reduce the poverty amongst the poor people and that is praised by Allah as the essential part of stewards (Ebadah). As the prophet Mohammad said "He who sleeps on a full stomach whilst his neighbor goes hungry is not one of us (Note 1)" (Shahinpoor, 2009). Over the last few decades, the Islamic financial industry has been growing globally not only in the Islamic world but also in the Western world such as in the United States of America, United Kingdom, France ... etc. Islamic Banking and financial system is competing aggressively with conventional financial system which relies on strong roots of popularity among people. To carry on the strong position in the market, Islamic finance providers have to improve service quality to satisfy their customer. Islamic financing providers are trying to offer high quality products and services to retain the loyalty of their customers and to attract more customers (Rehman, 2007).

Small financing which is known as microfinance is defined as the financial services such as saving, loans and micro insurance provided to lower income people, poor entrepreneurial who can't access to the formal banks (Consultative Group to Assist the Poor CGAP, 2011b). From this definition, customers of Microfinance institutions are at poverty level, vulnerable, non-poor, upper poor, poor and very poor. It has been widely acknowledged that the financial sector growth contributes significantly to the growth of the income. Galilean and Kirkpatrick (2001) argued that 4% increase in the growth rate of poor people's income is due to the 10 % increase in the development of the financial sector. In the Islamic world, the poverty level has been rising due to the global financial crisis and this situation increased the responsibility of Islamic Banking and financial system to

significantly contribute to the development of all Muslim countries. The role of Islamic Banking and finance system is not only to fulfill the emergent and immediate needs of the poor people, but also to maintain their lives and enhance their productivity to ensure sustainable incomes. In other words, the Islamic Banking and financial system should enhance the self-employment opportunities and productivity of the working class to achieve better life standards.

Therefore, one of the main objectives of the Islamic Banking and financial system is to help the poor people to improve their living standard and fairly distribute the wealth. The activities of Islamic financial products can help the poor people of different level. Mughal (2012) reported that “the current researches have agreed that Islamic microfinance has an excellent option to decrease the level of poverty in both Muslims and non-Muslims societies through offering the required financial resources.

Globally, it has been acknowledged that the Islamic Banking and financial system has an annual growth rate of 10% to 15%. This growth is, in part, due to the increment of Muslim populations. Historically, the Islamic Banking and financial system have been introduced after the conventional banking and financial system had been in operation for many years. Therefore, the Islamic banking and finance system has been going through stiff competition to acquire a share in the already established market. In addition, the development of SMEs can be seen as a primary solution that helps in reducing the poverty level (MOPIC, 2004).

As it is the case in other countries, in Yemen, the number of SMEs constitutes a very high percent of all businesses and their contribution in GDP is still low that reflects the lack of attention given to develop the SMEs sector. As mentioned earlier, the difficulties of SMEs to have an access to external financial resources is consider the major obstacle.

Digging deeply, the statistics showed that Islamic Microfinance system has been only supporting 11% of the SMEs in Yemen (Fararah & Al-Swidi, 2013). This low coverage reflects that there have been many issues regarding the operations of Islamic microfinance system. One of these issues is due to the recent introduction of the Islamic microfinance system so that the business development service to be offered to the SMEs is not seen as an advantage since the Islamic microfinance has to undergo through a long process to be able to provide business development services to their SMEs clients. This factor may affect the satisfaction of SMEs owners who started their business and lack the financial resources. Similarly, the effect of business development services and the financial requirements to the SMEs satisfaction is still lacking in the literature. Despite the fact that some researchers tried to investigate the impact of business development service (Ellahi, Bukhari, & Naeem, 2010; Mahmood, 2011; Mazanai & Fatoki, 2011), the effect of the business development service on clients' satisfaction is almost absent in the literature. While discussing customer satisfaction from the SMEs perspective, finance system and Islamic Microfinance are still waiting for more research to be conducted. This study contributes to the literature by investigating other determinants of the level of satisfaction towards the products and services offered by the Islamic Microfinance institutions in Yemen from the SMEs owners' perspective.

## **2. Microfinance System and SMEs Development**

Accessing financial services is the most important driving factor of SMEs development. It is thought to increase the income levels, decline the rate of poverty level and to increase the employment opportunities. It is supposed that having access to financial credit assists the poor people to grow up their liquidity constraints and take on some investments such as the enhancement of farm technology inputs that can lead to an increase in agricultural production (Heidhues, 1995). The key purpose of microfinance based on Navajas et al. (2000) is to offer smaller loans to the poor people to improve their productivity through uplifting the life standards. The high repayment rate set up by the financing providers is the main indicators of success of microfinance program, the financial sustainability and outreach has not taken into consideration what effect has made on operations of micro enterprise and only focusing on evangelism of microfinance.

Moreover, Diagne and Zeller (2001) documented that the lack of microfinance credit offered for the below or just above the poverty line may affect negatively the SMEs overall income and welfare. However, increasing of SMEs risk-bearing abilities enables consumption smoothing overtime and coping strategies. Therefore, microfinance aims to improve the income and welfare of poor people. It is agreed that Microfinance institutions have a positive impact on SME development because they guarantee sustainable access to credit for the poor entrepreneurs (Rhyne & Otero, 1992).

In addition, Zeller and Sharma (1998) documented that microfinance can support the improvement or the establishment of the family enterprises. This, therefore, potentially make the difference between alleviating poverty and economically securing a good standard life. This fact was corroborated by Berger (1989) who indicated that microfinance tends to stabilize the income level rather than to increase the income and tends to

preserve rather than to create jobs.

### 3. Research Framework and Hypothesis Development

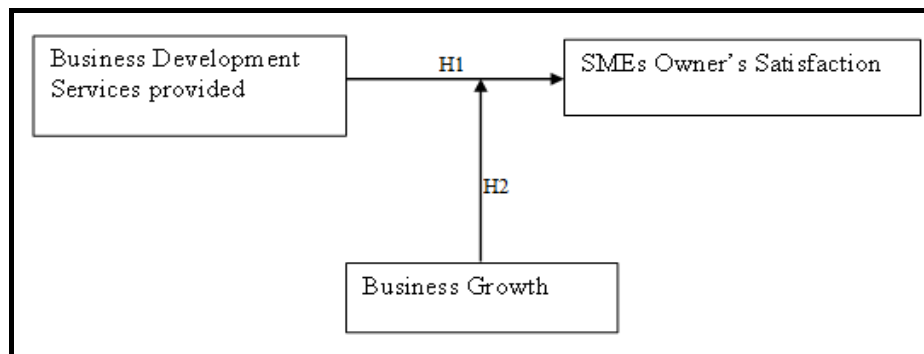


Figure 1. The research framework

#### 3.1 Business Development Services Provided by the Microfinance Institutions (BDS)

In a key study conducted by Ellahi, Bukhari, and Naeem (2010), business development services (BDS) was defined as the services provided by the microfinance institutions such as training, technology transfer, business advice, marketing assistance, monitoring, and information aimed to improve the performance of SMEs. Moreover, the Committee of Donor Agencies for Small Business Development (CDASBD) (2001) defined the BDS to “include training, consultancy and advisory services, marketing assistance, information, technology development transfer, and business linkage promotion”. BDS help to increase the performance of the enterprises, to enhance the market access and to improve competition ability. In addition, BDS considered serving group and individual businesses, as different to the community of larger organizations. The International Finance Corporation IFC (2006) defined business development services as “those non-financial services and products offered to entrepreneurs at different stages to meet their business needs”. Moreover, IFC adding, BDS do not offer guarantees and direction to SMEs start-up success. However, BDS providers could offer information to SMEs start-up to get guarantees for their funding. In line with that, Brijlal (2008) documented that, traditionally, BDS had been referred to as “the non-financial services”. In addition, BDS may be offered together with financing services.

Further, the International Finance Corporation (2006) reported that BDS are vital elements that support entrepreneurs to run their businesses successfully if applied correctly. In other words, BDS are the enhancers of access to finance and as an alternative form of guarantee in a situation where tangible guarantee may be is an obstacle to meeting traditional security requirements. The primary focus of BDS services provision is to facilitate skills transfer and to provide business advices. According to SFD (2012), BDS would provide all the support needed for the development of enterprises through studying ways of supporting them technically by gaining experience from similar experiences, and encouraging innovations that would lead to the diversification and growth of enterprises. Therefore, the following hypothesis can be empirically tested.

*H<sub>1</sub>. There is a positive significant effect of business development service provided by IMFIs on SMEs owners' satisfaction.*

#### 3.2 Business Growth

The most important goal for business organizations is to increase the profit and growth while a nonprofit organization aims to have a significant growth and outreach. Penrose and Pitelis (1995) defined each firm or institutions as “an administrative organization whose legal entity or frame work may get bigger in future with the group of both physical resources and tangible resources such as human”. Relatedly, the business growth is defined as “an increase in the size of organization or other aspects that can be a measured or a process of improvements and changes”. The size of each organization reflects the growth of firm according to the period of time. Also it has to be recognized that the growth is a procedure while firms have to follow. Moreover, the firm growth can be indicated by many factors such as the increase of the capital, the increase of number of labors and the investment opportunities pursued. Similarly, the government of Canada and SMEs Financing Data Initiative, (2002) defined size as “an element related to the growth rate and specific activities that significantly effect on SMEs' external financing needs”.

Improving the sustainable income of the poor is the main economic goal behind the introduction of the microfinance institutions. In developing countries such as Yemen, the level of living standards is very low especially in the rural areas. However, the poor people could obtain the required financial resources for their SMEs and subsequently improve the level of income. In general, the function of MFIs is to help the poor people by offering financial services with low cost. The main purposes of any microcredit program, according to Navajas et al. (2000), is to deliver an excellent access to microfinance services that are not offered by formal financial institutions. This will lead to improve the quality of life of the poor and increase their welfare. Diagne and Zeller (2001) documented that, offering microfinance services to the poor may have a positive effect for SMEs and overall welfare. It is confirmed that MFIs have to offer sustainable microfinance services and high outreach in society. In addition, MFIs may have a positive impact on SMEs development sector by providing sustainable guarantees that facilitate their access to finance.

The growth of the SME makes a difference in appreciating all the programs and policies offered by the Islamic microfinance system. In this study business growth factor is expected to moderate the effect of business development services on the satisfaction of the SMEs owners. Thus the following hypothesis is introduced for empirical test.

*H<sub>2</sub>. Business growth has a moderating effect on the relationship between BDS provided by IMFI and SMEs owners' satisfaction.*

#### 4. Research Methodology and Statistical Data Analysis

##### 4.1 Measurement and Instrumentation

The measures of the study were adapted from the past literature. Specifically, the measurements of Business Development Services (BDS) were taken from the associated researches in the financial sector related to the satisfaction literature of customer. Moreover, the study used deployed measure and it has been taken from (Ellahi et al., 2010; Mazanai & Fatoki, 2011). The measurement related to Business Growth was replicated from (Heaney & Goldsmith, 1999) and the overall satisfaction measure was taken from (Angelova & Zekiri, 2011).

##### 4.2 Population and Sample

The population of the study encompasses the total number of SMEs in Yemen which deal with Islamic microfinance institutions is 34124 (Fararah & Al-Swidi, 2013). To test the model of the study and to examine the developed hypotheses, a simple random sample as probability technique was used to select the data form the list of beneficiaries of the Islamic microfinance providers. Based on that, 532 questionnaires were distributed out of 346 questionnaires were returned. Among the returned questionnaires only 320 questionnaires were complete, useful, and usable for the analysis stage.

To examine the model of the study, Partial Least Squares Structural Equation Modeling (PLS-SEM) approach was employed utilizing the SmartPLS package 0.2. The analysis was detailed in the following sections.

##### 4.3 The Measurement Model

The first step was to confirm the validity and reliability of the measurement model following the Partial Least Square Structural Equations Modeling (PLS SEM). The SmartPLS 2.0 package was used.

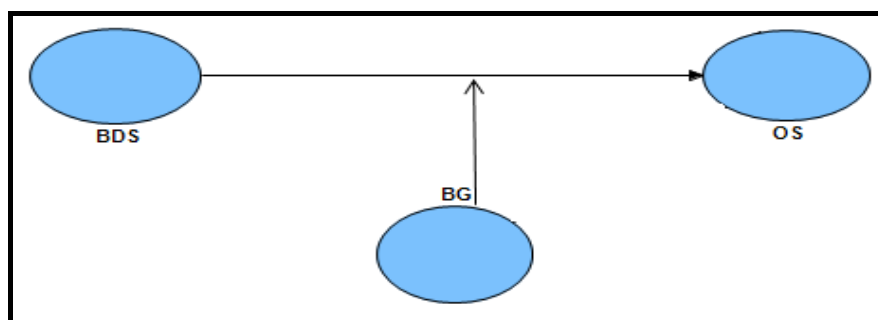


Figure 2. The research framework

Before testing the hypotheses of the study, the measurement model was assessed first using partial least squares structural equation modeling (PLS-SEM). Two steps were followed to confirm the model's goodness of fit. In so

doing, construct validity, which include factor loadings, composite reliability, Cronbach's alpha and convergence validity, was ascertained. Also, the discriminant validity using the Fornell and Larcker (1981) criterion was examined and confirmed.

Table 1. Factor loading

Variables	Items	BDS	OS	BG
BDS	BD38	<b>0.765</b>	0.542	0.568
	BD39	<b>0.829</b>	0.572	0.508
	BD40	<b>0.838</b>	0.595	0.483
	BD41	<b>0.766</b>	0.490	0.488
	BD42	<b>0.787</b>	0.516	0.466
	BD43	<b>0.746</b>	0.476	0.495
	BD44	<b>0.663</b>	0.424	0.338
Overall Satisfaction	OS51	0.465	<b>0.721</b>	0.402
	OS52	0.555	<b>0.813</b>	0.495
	OS53	0.523	<b>0.804</b>	0.400
	OS54	0.598	<b>0.835</b>	0.439
	OS55	0.469	<b>0.719</b>	0.404
Business Growth	BG34	0.470	0.424	<b>0.800</b>
	BG35	0.494	0.393	<b>0.781</b>
	BG36	0.551	0.490	<b>0.846</b>
	BG37	0.434	0.414	<b>0.712</b>

Table 2. Convergent validity

Variables	Items	Loading	Cronbach's Alpha	Composite Reliability	AVE
BDS	BD38	0.765	0.886	0.912	0.597
	BD39	0.829			
	BD40	0.838			
	BD41	0.766			
	BD42	0.787			
	BD43	0.746			
	BD44	0.663			
Overall Satisfaction	OS51	0.721	0.838	0.885	0.608
	OS52	0.813			
	OS53	0.804			
	OS54	0.835			
	OS55	0.719			
Business Growth	BG34	0.800	0.793	0.866	0.618
	BG35	0.781			
	BG36	0.846			
	BG37	0.712			

Note: <sup>a</sup> Composite Reliability (CR) =  $(\sum \text{factor loading})^2 / \{(\sum \text{factor loading})^2 + \sum (\text{variance of error})\}$

<sup>b</sup> Average Variance Extracted (AVE) =  $\sum (\text{factor loading})^2 / (\sum (\text{factor loading})^2 + \sum (\text{variance of error}))$

#### 4.3.1 Construct Validity of the Measurements

Construct validity refers to the degree to which the items generated to measure a construct can appropriately measure the concept they were designed to measure (Hair et al., 2010). More specifically, all the items designed

to measure a construct should load higher on their respective construct than their loadings on other constructs. This was ensured by a comprehensive review of the literature to generate the items that already have been established and tested in previous studies. Based on factor analysis, items were correctly assigned to their constructs. The items showed high loadings on their respective constructs when compared with other constructs as showed in Table 2 and all the items have significantly loaded on their respective constructs (Chow & Chan, 2008).

#### 4.3.2 Convergent Validity of the Measurements

Table 2 shows that the composite reliability values ranged from 0.860 to 0.964. These values exceeded the recommended value of 0.7 (Fornell & Larcker, 1981; Hair et al., 2010). The average variances extracted (AVE) values ranged between 0.593 and 0.931, indicating a good level of construct validity of the measures used (Barclay et al., 1995). These results confirm the convergent validity of the outer model.

#### 4.3.3 Discriminant Validity of the Measures

The discriminant validity of the measures was confirmed by employing the method of Fornell and Larcker (1981). As illustrated in Table 3, the square root of average variance extracted (AVE) for all the constructs were placed at the diagonal elements of the correlation matrix. As the diagonal elements were higher than the other elements of the row and column in which they were located, this confirms the discriminant validity of the outer model.

Table 3. Discriminant validity

Constructs	1	2	3
1) BDS	<b>0.773</b>		
2) Business Growth	0.622	<b>0.786</b>	
3) Overall Satisfaction	0.673	0.550	<b>0.780</b>

#### 4.3.4 Prediction Relevance of the Model

Results pertaining to the prediction quality of the model are illustrated in Table 4, which indicated that the cross-validated redundancy of Overall Satisfaction was 0.264 and the cross-validated Communality was 0.608. These values were more than zero, indicating an adequate predictive validity of the model based on the criteria suggested by Fornell and Cha (1994).

Table 4. Prediction relevance of the model

Constructs	R Square	Cross-Validated Redundancy	Cross-Validated Communality
Overall Satisfaction	0.481	0.264	0.608

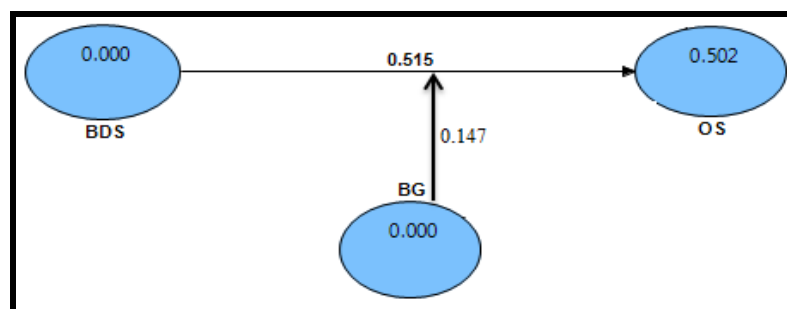


Figure 3. Path model results

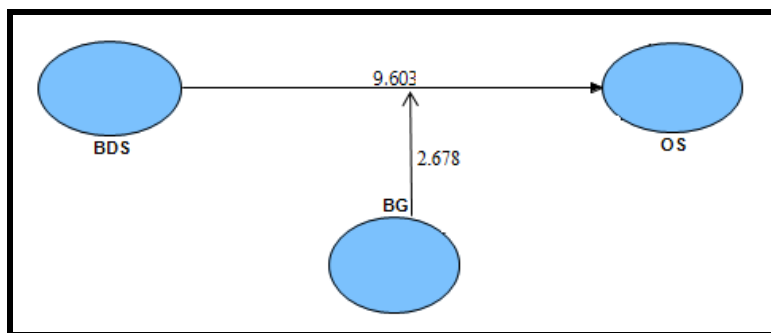


Figure 4. Path model significance results

4.3.5 Hypotheses Testing

After the goodness of the measurement model had been ascertained, the next step was to test the hypothesized relationships among the constructs. Using the SmartPLS2.0, the hypothesized model was tested by running the PLS algorithm. The path coefficients were then generated, as illustrated in Figure 2 and Figure 3.

As illustrated in Figures 2,3 and Table 5 the BDS has a positive and significant effect on the levels of satisfaction of IMFI customers at the 0.001 level of significance ( $\beta=0.515$ ,  $t= 9.188$ ,  $p<0.001$ ).

Table 5. Hypotheses testing

Hypotheses	Path Coefficient	Standard Error	T value	P value	Decision
<b>BDS -&gt; OS</b>	0.515***	0.056	9.188	0.000	Supported
<b>BDS * BG -&gt; OS</b>	0.147***	0.052	2.832	0.002	Supported

$t > 1.65^*$  ( $p < 0.10$ );  $t > 1.96^{**}$  ( $p < 0.05$ );  $t > 2.58^{***}$  ( $p < 0.01$ )

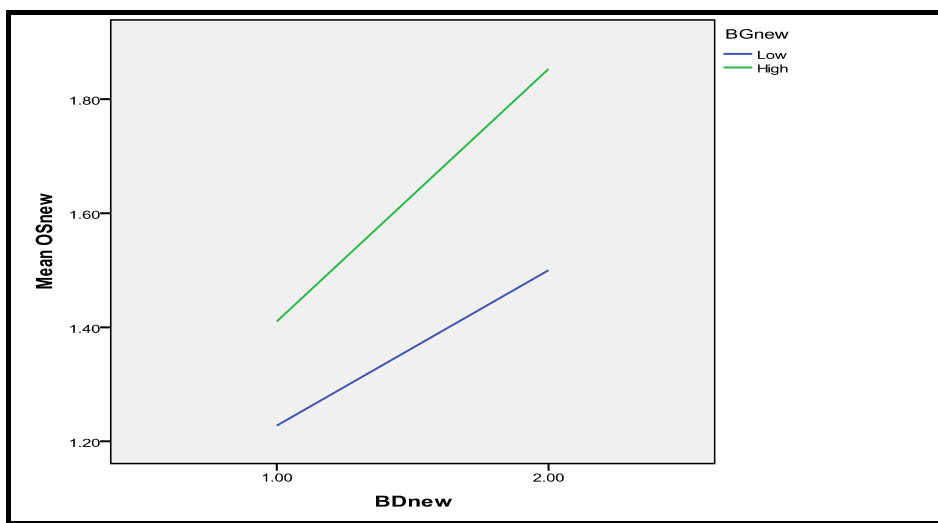


Figure 5. The moderating effect of BG on the relationship between BDS and overall satisfaction (OS)

Apparently, the results of the study supported the hypothesis of the study H<sub>1</sub>. This finding indicated the importance of business development services provided by the financing institutions to higher the level of SMEs owners' satisfaction.

The next step was to examine the moderating effect of business growth on the relationship between business development services (BDS) and the overall Satisfaction (OS). Based on the moderating definition, business growth (BG) is said to be a moderator on the relationship between business development services (BDS) and overall satisfaction (OS), if the direct effect become stronger or changed the form when the moderating variable is

accounted for (Hair et al., 2010). The results, as illustrated in Table 5 and Figure 4 confirmed the moderating effect of the business growth on the relationship between BDS and SMEs owners' satisfaction at the 0.01 level of significance ( $\beta=0.147$ ,  $t=2.832$ ,  $p<0.01$ ), thus hypothesis H<sub>2</sub> was confirmed.

The graph in Figure 5 showed that although the BDS provided by the financing organizations, as a construct, has a positive effect on the satisfaction of SMEs owners, the rate of change in the high business growth situation will be higher than that of the low business growth situation. This signifies the moderating effect of business growth and how much difference it could affect the sensitivity of the SMEs owners' satisfaction.

## 5. Discussion and Conclusions

This study aimed mainly to investigate the effects of BDS provided by the Islamic Microfinance institutions in Yemen on the satisfaction level of the small business owners as well as the moderation role of business growth.

SMEs are the building blocks of each economy, these business entities are run by fresh people who need consultation from the micro credits' providers. That is, the new enterprises or SMEs should be offered the business consultation services so that they could be able to survive, grow and be able to repay the money back to the banks and microfinance programs. That is why the BDS, as a factor, is one of the main determinants of the satisfaction of SMEs owners and drive them to a fruitful interaction with the provided program.

Due to the importance of the business development service (BDS) provided by Islamic Microfinance Institutions (IMFI) to the SMEs owners' satisfaction, hypothesis H<sub>1</sub> was tested and the results confirm the stipulated hypothesis. This result indicated that the business development service provided by the IMFI is considered to be one of the most important determinants of SMEs owners' satisfactions. This result is in line with some previous studies such as, Ellahi et al. (2010); Mazanai and Fatoki (2011), Mahmood (2011) and Fararah et al. (2014). As well as this result consistent with the Social Exchange Theory (SET), however, this finding explained to what extent the BDS can determine the satisfaction of SMEs' owners.

In examining the moderating effect of business growth on the relationship between business development services provided by IMFI and SMEs owners' satisfaction, the results confirmed the articulated hypothesis as in H<sub>2</sub>. This result imply that in the situation of high perceived business growth opportunities, IMF providers should intensify the provided business development services to ensure the feasibility and survival capabilities of the SMEs.

The results of the paper might be very useful to academics and Islamic bankers who concern about the compatibility and success of the microfinance system and the factors that could affect the connection with their individual and corporate partners.

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### Note

Note 1. Reported by Bukhari and Muslim.

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