**Policy Brief**

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**Determinants of SME Performance in the Mauritian Tourism Industry**

**The Study**

* This study assessed the determinants of SEM performance in Mauritius (both male and female entrepreneur). To this end, a theoretical model was developed based on a review of the existing literature in the field. The model proposes that management capability, autonomy, competence, self-confidence, and skills are the antecedents of SME performance. The model was tested using a structural equation modeling approach. Structural equation modeling (SEM) allows researchers to study real-life phenomenon and “provides a useful forum for sense-making and in so doing link philosophy of science to theoretical and empirical research” (Bagozzi and Yi 2012, p. 12).

### Data Collection Process

* Data was collected by administering surveys. A survey form was designed and administered only to the targeted population of SMEs operating within the tourism industry across the whole island. Data collection and data input phase for this activity ended in December 2018 with a total of 386 responses recorded.

**Results**

* Results indicate that managers’ autonomy is a significant determinant of SME performance, suggesting that more autonomous managers leads to improved SME performance. In the context of this study, autonomy refers to manager’s freedom to act and the latitude they have when formulating strategic decision in their organisation and the development of the SEM strategy ([Montanari, 1978](https://www.sciencedirect.com/science/article/pii/S096959311000051X%22%20%5Cl%20%22bib33), [Takeuchi et al., 2008](https://www.sciencedirect.com/science/article/pii/S096959311000051X%22%20%5Cl%20%22bib45)). The benefits of the execution of managerial discretion for greater performance consequences have been well discussed in the existing literature ([Keegan and Kabanoff, 2008)](https://www.sciencedirect.com/science/article/pii/S096959311000051X%22%20%5Cl%20%22bib26).
* Our results also indicate competence to be a significant determinant of performance. Higher level of managerial competence was positively related to performance. In SMEs, managerial human capital plays an important role in determining the performance of the organisation. Managers’ knowledge helps to develop the required capabilities that are essential and decisive in strategic outcomes. In addition, managers are the main factor behind the initiation, development, sustenance, and success of a firm’s (Freeman, Edwards, & Schroder, 2006).
* Furthermore, the study also demonstrates that skills of the managers was positively related to managerial competency. Empirical studies have attempted to establish relationships between skills, competence and performance, with the conclusion that performance and competence has to be accompanied by difference types of managerial skills (Black & Mendenhall, 1990; Seak & Enderwick, 2008; Yamazaki & Kayes, 2004).
* We also demonstrate empirically that skills is positively related to innovation capabilities of the managers, suggesting that more skillful managers demonstrate more capabilities to bring innovation to their SMEs.
* Our study has also established a significant positive relationship between management capability and innovation capability. This finding is not surprising given the ample evidence that validate a similar relationship in the existing literature.

### Managerial/Policy Implications

The study provides important managerial implications for improving the performance of SMEs.

* For better performance, it is imperative for SMEs to improve their management capability. Our results indicate that SMEs with more autonomous managers’ report improved performance. Thus, it is important that managers of SME are empowered to make strategic decision. The concept of empowerment is originally derived from participative management theories and suggest that manager’s involvement in decision-making leads to several benefits for the organization. Thus, the organizational structure of SMEs should encourage managers to participate fully in the decision-making processes. SMEs should be a light organizational structure that reduces bureaucratic decision-making processes involving several layers of management.
* Improving innovation capabilities remains an important consideration for SME to improve their performance. SME should recognize that innovation provides them with a competitive advantage and help them play a dominate role in the industry. SME therefore has to focus on such processes that lead to more efficient production at the lowest possible costs. Furthermore, SME can use process and system innovation to improve productivity. They can, for example, implement lean principles that aim to eliminate ‘waste’ from production to customer relations, product design, supplier networks and factory management with objective being less human effort, inventory and time to develop products, within minimum space to become highly responsive to customer demand and produce quality products economically.
* Developing managerial skills is another path to improve management and innovation capabilities as our findings suggests. The government should recognize the importance of managerial skills for the sustainability of SMEs in Mauritius and should provide incentives or directly support skills development program for SME managers. Such programs should at improving skills of SME managers such as those related to people management, business finance, communication, negotiations, project management, business strategy and planning, leadership, and other fundamental management skills.