

**Mediating Relationship of Financial Practice between Financial Knowledge and Business Success: An Empirical Study on Malaysian Small Enterprises**

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**Abstract**

The business world metaphorically has turned flat for the onslaught of globalization. The ultimate purpose of achieving business success is a common anticipation for all types of businesses, particularly small businesses that are thought as a nucleus of the business world. The purpose of this research is to assess the mediating relationship of financial practice between financial knowledge and business success of small business in Malaysia. An extensive review of extant literature is conducted to show the research gap. The research method of this study is survey method, where the unit of analysis is the individual respondent consisting business owners and managers. A sample of 302 data is considered as the final sample size for the current study. Prior to conducting Structural Equation Modelling (SEM), Exploratory Factor Analysis (EFA) is performed to scrutinize the underlying dimensions of Financial Knowledge (FK), Financial Practice (FP) and Business Success (BS). The reliability analysis is checked via Cronbach's alpha coefficient of the three extracted factors for the purpose of ensuring the internal consistency. Next, the mediating relationship is performed using SEM to indicate the appropriateness of the measurement instruments. The results indicate that, although Financial Knowledge (FK) is positively related to the Financial Practice (FP) in Malaysian small business, it is not directly related to the Business Success (BS). Apart from this, the Financial Practice (FP) is found assertively allied to the Business Success (BS) while Financial Practice (FP) plays the mediating roles in the Financial Knowledge (FK) towards Business Success (BS) in Malaysia. The current study adds value to the current level of knowledge in the existing literature. This research conveys an understanding of the entrepreneurs regarding the financial knowledge items those are more essential and play as the remedy to get the business success swiftly. Furthermore, the current study brings some implications to the policy makers and regulators as well. The research creates the value in Malaysian small business milieu since there is a dearth of empirical studies previously conducted highlighting the mediating relationship of financial practice between financial knowledge and business success of small business in Malaysia.

**Keywords** Mediating relationship, financial practice, financial knowledge, Business success, Malaysian small business

## **1. Introduction**

The era of globalization has taken allegorically an attention of the business world to grow a variety of firms and business opportunities. This competitive tone has furnished the whole business industry strongly over its rivals and its ability to cope with multiple challenges to be successful in the business (Lei, 2007). Research on the business, finance and economic marginality has included a focus on the small business where the financial practice is the basis of business success (Baumbach and Lawyer, 1973; Kuratko and Hodges, 2004). According to Dunn (2009), the appropriate financial practice is the most important components of a business and it is often stated in both the academic and popular literature as primary reasons for small business failure is poor financial practice.

Looking at the past trends and statistics, no doubt, the small businesses generate a sophisticated amount of earnings, employment creation and national productivity to accelerate the business needs of a country. In Malaysia, the evidence from the SMEs Annual Report (2012) revealed that it is estimated about the share of employment by small business increased close to 60 percent in 2010. The strong employment growth of small business began in 2007 at 8.3 percent, when the value added growth of small business was at its peak (SMEs Annual Report, 2012). However, the financial practice of Malaysian small business has noted with dismay (Moha Asri, 1997; Moha Asri, 1999; Salleh and Ndubisi, 2006; Moha Asri and Manan, 2010; Norliya, Siti Mashitah and Siti Zaharah, 2010), mainly constrained by lack of financial knowledge and appropriate financial practice (Norliya, Siti Mashitah and Siti Zaharah, 2010). The sophisticated financial knowledge of Malaysian small business entrepreneurs is contentious and some of the cases it is considered as a key element of business failure in initial stage (Moha Asri and Manan, 2010; Norliya, Siti Mashitah and Siti Zaharah, 2010) wherein money or creating a proper estimation of cash flow is one of the preliminary concerns for small business around the world (Clark, 1997; Moha Asri, 1999; Longneck, Moore and Petty 2000; Vesper, 1996), which indicates the financial literacy and/or financial knowledge. Along with, Mason (2008) identified this lacking of knowledge and management skill is the one of the major causes of business failure.

On the contrary, many literatures (Lim, 1986; Moha Asri, 1999; Salleh and Ndubisi, 2006; Alias, 2007; Moha Asri and Manan, 2010; Yusoff and Yaacob, 2010) and statistical records show that the government of Malaysia did play many important roles in the past to promote small business, yet Malaysian small business is up against a competitive disadvantage only because of poor utilization of knowledge as a resource. Thus, this research examines a completely different type of small business success from a different dimension, where financial practice plays a mediating role in between financial knowledge and business success. In this relation, this study embarks on the following objectives:

- (i) To assess the impact of Financial Knowledge (FK) on Financial Practice (FP).
- (ii) To determine the impact of Financial Practice (FP) on Business Success (BS).
- (iii) To realize the impact of Financial Knowledge (FK) on Business Success (BS).
- (iv) To examine the mediating relationship through Financial Practice (FP) between Financial Knowledge (FK) and Business Success (BS).

- (v) To enhance the new understandings and recommend some potential implications for the business success of small business in Malaysia.

## **2. Literature Review**

This section discusses an extensive literature review of prior studies focusing on the prime areas of the current research. Specifically, this section principally illustrates the three constructs used in this study in relation with Malaysian small business.

### **2.1 Small Business in Malaysia**

Precedent literature assumes that small business includes all businesses and enterprises except large enterprises (Moha Asri, 1999; Moha Asri and Manan, 2010; Rosman and Mohd Rosli, 2011), because most of the businesses worldwide can be categorized as small business through judgmental reasoning (APEC, 2003). However, this definition also is also imposed in Malaysian perspective (Rosman and Mohd Rosli, 2011).

Historically, there was no standard definition of small business used in Malaysia before the formation of the National SME Development Council (NSDC) in June 2004. Therefore, different agencies did characterize and define small business based on their criteria, focusing on a number of full-time employees and annual sales turnover mostly (Bank Negara Malaysia, 2013). In fact, present understanding of SMEs mainly emphasizes on the manufacturing sector. For instance, the Small and Medium Industries Development Corporation (SMIDEC) classified small business as enterprises with annual sales turnover not exceeding RM25 million and with full-time employees not exceeding 150 workers. Besides, Bank Negara, the Central Bank of Malaysia describes SMEs as enterprises with shareholders' funds of less than RM10 million (NSDC, 2005). On the other hand, SME Bank (2013) defines small business based on two criteria that are the number of employees and annual sales turnover. In fact, the definition of small business in Malaysia is applied in some sectors such as primary agriculture manufacturing (including agro-based), Manufacturing-Related Services (MRS) and services (including Information and Communications Technology) as well. Principally, the lack of standard definitions prevented the collection and compilation of uniform data for assessment of the needs of small business development and business performance. According to a new definition approved recently on 11 July 2013, an enterprise with sales turnover of less than RM30 million and/or full-time employee of less than 200 in the manufacturing sector is considered small and medium size business (SME Corporation Malaysia, 2013).

In most industrially developed and developing economies, a growing number of small businesses need access to a wide range of sources of finance for their business success (Hussain et al., 2006). For that, financial knowledge may bring the established financial practice that employs business success for the small business (Xiang et al., 2011). Thus, it is widely recognized in academic literature that small businesses basically struggle with access to finance (Mason and Kwok, 2010; Hughes, 2009; Guijarro, Garcia and Auken, 2009; Bruns and Fletcher, 2008; Mason and Harrison, 2004) whereby financial practice can be indicated as the main player of the whole phenomena. Access to finance helps and proper financial practice creates the business growth and

prosperity for the small business (Stam and Garnsey, 2008; Butler and Cornaggia, 2009). However, Malaysia as like other developing countries, small business usually faces significant barriers to finance. This happens mainly because for individual's knowledge and actions regarding financial practices (Guiso and Minetti, 2010; Xiang et al., 2011). Therefore, this study focuses the above-stated issues in relation with business success for Malaysian small business.

## **2.2 Financial Knowledge**

The financial knowledge, in general term, refers an individual who has a proper concern about financial activities. Since this research is based on small business in Malaysia, therefore, financial knowledge indicates an individual who has the acquaintance and sophisticated information regarding the financial practice of small business. Nonetheless, the word „knowledge“ itself does not have a universally established definition; there is no uniformity or common conformity on the part of the scholars as to the definition and nature of knowledge, where it is an intrinsically ambiguous or equivocal term (Newell *et al.*, 2002). Thus, numerous approaches and taxonomies, such as „belief“, „understanding“, „information“, „experience“, „power“, etc. are offered by them at different times and studies to convey the meaning of knowledge from a variety of perspectives as found in the literature. Nevertheless, financial knowledge in this context normally represents the knowledge of financial issues concerning small business.

Fundamentally, the knowledge creation has become one of the most imperative sources of business practice in the knowledge economy (Barney, 1991; Nonaka and Takeuchi, 1995; Spender, 1996; Boisot and Child, 1999; Shapiro and Varian, 1999; Teece, 2000; Barney and Hesterly, 2006; Wang et al., 2011). Knowledge creation in terms of business and/or organization usually refers the capacity to exchange and combine knowledge within the organization to create new knowledge (Nahapiet and Ghoshal, 1998). A number of preceding studies reported positive relationships between knowledge creation and business performance (Nonaka and Takeuchi, 1995; Peltokorpi et al., 2007; Song, 2008; Song and Chermack, 2008). In fact, the high variation in knowledge creation capability provides an ideal context to test its antecedents (Wang et al., 2011). Thus, knowledge creation is considered as an initial output, which is the raw material for innovation performance.

Knowledge has always been embedded in the activities of organizations. People have joined and left organizations from their inception. Yet, the value of knowledge has grown with “the emergence of the information age and the knowledge economy, which have transformed knowledge into an asset and made it the basic economic resource” (Beazley et al., 2002, p.13). Moreover, knowledge retention is a part of knowledge management with respect to the organization or business understanding where a number of methodologies, especially in the academic research are available to illustrate knowledge retention issue (Wiig, 1993; Von Krogh et al., 1994; Nonaka and Takeuchi, 1995). The knowledge retention itself is considered as knowledge maintenance, which means, capturing knowledge from the earlier knowledge to utilize further.

Besides, knowledge sharing within the organization is recognized as an important feature which has been taken an important resource for several years (Argote, 1999; Bechky, 2003). In

fact, knowledge is considered as the most important asset and a valuable resource for the business organizations (Grant, 1996; Bechky, 2003; Spender and Scherer, 2007). Therefore, the sharing of knowledge is seen as being significant for the utilization and uses the resources appropriately (Boisot, 1998; Brown and Duguid, 2000; Carlile, 2004). Specifically on financial knowledge, those who have sophisticated financial knowledge that helps to better practice of a business, it requires that knowledge to be shared for achieving better business performance and success (Guiso and Minetti, 2010; Hamelin, 2011).

The concept of tacit knowledge has become an important element in economic, management and finance literature nowadays where it is basically characterized as abstract (Nonaka and Takeuchi, 1995), internal in nature (Harlow, 2008), inexpressible (Polanyi, 1966) and as something that is subjective in nature (Polanyi, 1958; Polanyi; 1966) that evolves with a person's accumulated experience over time (Dooley, 1998). Rooted in an individual's values, or emotions or principles, it is difficult to communicate and share with others (Debowski, 2006). Explaining further on tacit knowledge, it is passed on to others through direct experience (Polanyi, 1966), and/or by observation and imitation (Hall and Adriani, 2002). Although tacit knowledge is hard to document, categorize and share; it is deemed vital for an organization to make sound judgments and effective decision-making (Baumard, 1999).

With these, the explicit knowledge is expressed knowledge. Gherrardi and Nicolini (2000) recommended that tacit knowledge, which is implicit knowledge, creates in communal participation and/or practice. In fact, as they mentioned, explicit knowledge is basically a tacit knowledge in action. For this reason tacit knowledge is thought to exist only on a collective level. Thus, for any business, explicit knowledge is considered as the output of tacit or implicit knowledge. This knowledge is basically for achieving the success of the business. Moreover, these all can be the source of financial knowledge which generates financial practice for small business.

### **2.3 Financial Practice**

The term financial practice is a combination of two words, finance and practice. In general terms, financial practice is understood as how finance and financing are exercised for a specific purpose or some different purposes. For small context, financial practice refers to the managing and executing of financial activities with proper guidance which lead a small business to maintain their operation as it should be. However, in this study context, financial practice refers the overall internal business's financial activities which are being operated because of the entire business like financial control, accountability, liability management and so on.

Financial control in general term is defined mainly as managing and organizing system of an organization. This is basically the way of proper financial practice for a business. However, the primary goal of financial practice is to control the financial activities of the business. For the small business context, sometimes it is observed that, the business owner cannot hold money separately for every single business activities and even they tend to blend their family or personal cash with the business. Thus, to ensure a proper financial practice in the longer term, the small business people have to put themselves into a position in which they can reasonably expect to be successful

and to seek a satisfactory margin of profit. As a consequence, the person who will be controlling the financial matters is usually called financial controller. Besides, the financial accountability usually refers the conscientiousness and responsibility of an individual to perform an exact role in financial practice where financial statements are presented in accordance with generally accepted accounting principles. In fact, the financial accountability can be used in terms of business even instead of an individual.

Assets and liabilities are the records for a business which are usually indicated as the backbone of an organisation. Thus, these important components should be given priority and require proper management. Basically, asset, liability and risk management are considered as a financial practice for small business (Lawson, 1995; Russell et al., 1999; Jasra et al., 2011). From historical evidence, the asset and liability management is basically a technique that is useful for managing risks. According to Petrakis (2005), this risk can be occurred from mismatching between the assets and liabilities. Moreover, for the sake of proper financial practice for small business, the asset and liability management as well as an appropriate way of managing risk is equally important with financial control and financial accountability that bring small business to be successful in business operations.

#### **2.4 Business Success**

The term business success is usually used as the achievement of a small business within a specified period of time. Thus, business success is the measure that determines how well an organization or business attains its goals. In fact, business success also refers to encompass an entire venture or even to control unexpected state of affairs component within a specified parameter, where the financial and non-financial items can be the parameter. Financial business success refers the success is measured in terms of financial indicators. More specifically, if a Small and Medium Enterprise (SME) measures its success or failure with various financial indicators like profit, sales turnover, share prices, revenue, and so on; this is specified as financial business success (Grant, Jammine and Thomas., 1988; Garrigos-Simon and Marques, 2004; Marques et al., 2005; Tracey and Tan, 2001). Financial success can usually express with quantitative indicators that can be presented with a number. This is basically an extent or a degree of numerical values taken from a small business or an enterprise's financial statements. Besides, there are many standard ratios which also be used to evaluate the overall financial performance that indicates business failure or success. In small business, the financial measurement can be used by managers where the financial analysts use financial indicators to evaluate the business success (Groppelli and Nikbakht, 2000).

Non-financial business success refers a situation where a business measures its success other than financial indicators like a number of employees, efficiency, reputation, perception and others. Recent studies (Zack *et al.*, 2009; Tseng, 2010) have emphasized on a number of employees, future strategies and other stakeholders as the non-financial indicator to measure the business success. Usually, non-financial indicators are known as qualitative measures. For example, company goodwill and reputation creates branding and that is how customers achieve

positive perception and satisfaction as well as the business achieves customer loyalty (Aaker and Keller, 1990; Smith and Park, 1992; Martinez and Chernatony, 2004; Ghen and Liu, 2004). However, the concept of business success for small business in terms of non-financial measures mainly indicate how the business is exposed over time with the support of proper financial practice even though it is saying as non-financial business success.

## 2.5 Conceptual Framework and Hypotheses Development

Derived from the literature support and foundation in the previous sections, the basic research model in this study is exhibited in Figure 1.



**Figure 1: Conceptual Framework**

To meet the research objectives and based on the conceptual framework presented above, four hypotheses are constructed as follows:

- H1: Financial Knowledge (FK) is positively related to Financial Practice (FP)
- H2: Financial Practice (FP) is positively related to Business Success (BS)
- H3: Financial Knowledge (FK) is positively related to Business Success (BS)
- H4: There is a mediating relationship through Financial Practice (FP) between Financial Knowledge (FK) and Business Success (BS)

## 3. Research Methodology

This section presents the research method that is employed to measure the antecedences of financial practice for the success of small business in the Malaysian context. For this, it discusses a number of research processes like research method, a unit of analysis, sampling frame, sampling technique, sample size, data collection, measure, statistical analysis of data, etc.

### 3.1 Research Method

The research method of this study is survey method. The survey method is the most appropriate method for the data collection as this method helps to predict the nature of the total population from which the sample are selected (Fowler, 1988; Sapsford, 1999). Survey research



method often leads to achieving the accuracy and relatively cost-efficient data for the research (Sekaran, 2000; Kothari, 2004). This method can be developed in less time and able to collect data from a large number of respondents (Neuman, 2007). This current research, therefore, employed a survey method for evaluating the antecedences of financial practice for the success of Malaysian small business.

### **3.2 Unit of Analysis**

To meet the objectives of this research, the unit of analysis in this study is the individual respondent (business owners and managers) those who are involved in Malaysian small business. Thus, the target population comprises the business owners and managers attached in the small business in Malaysia, are both the respondents as well their respective enterprises are to meet some prescribed criteria to be considered as respondents and chosen enterprises in the study.

### **3.3 Sampling Frame**

The sampling frame is necessary for the probability sampling or random sampling (Kothari, 2004) as this study adopted, which refers to a representation of the target population (Malhotra, 2007). In fact, the sampling frame in this study contains the small businesses that are obtained from the SME Corp Malaysia. Since about majority of all the companies are based in Selangor and the greater Kuala Lumpur region, the capital city of Malaysia, thus it also reflected in the current study as well. Hence, the overwhelming majority of the companies had chosen from the Kuala Lumpur region for the current research, though some of the divisions of these companies are scattered in various parts of Malaysia.

### **3.4 Sampling Technique**

To meet the research aim, this study employed the simple random sampling technique to carry out the survey. A simple random sampling is a subset of respondents (a sample) chosen from a larger set (a population). Each respondent is chosen randomly and exclusively with probability, wherein each of the respondent does have a similar possibility of being chosen at any phase throughout the sampling process (Malhotra, 2007; Sekaran and Bougie, 2009). For this purpose, the small businesses are chosen from the sampling frame representing the population are grouped into three broad categories derived from their business operation. These are as follows:

- i. The businesses were selected did fulfill the criteria of small business and employ a regular basis operational activity.
- ii. The respondents who took part in this study comprised two categories including business owners and managers only.
- iii. The respondents of being managers, they were working as the full-time employees in the respective enterprises, and who were familiar with the financial practice and other finance related activities.

Moreover, questionnaires were only distributed to the respondents having met the above criteria.



### **3.5 Sample Size**

The sample size is an important issue that plays a crucial role in obtaining stable, meaningful estimations and interpretations of results (Hair et al., 2010). Fundamentally, determining the sample size depends on many aspects such as population size, time and cost, analysing suitability and so on. As this research employs Structural Equation Modelling (SEM), therefore, the question of sample size adequacy remained as a prime concern in the application of SEM software program. While no precise guidelines regarding the sample size have been stipulated, one rule of thumb is suggested by Hair et al. (2010), that a minimum recommended level is five observations for each parameter. If the observation/parameter ratio is less than 5:1, the statistical strength of the results may be in doubt (Baumgartner and Homburg, 1996). In many cases, 5:1 are adequate (Bentler and Chou, 1987; Pallant, 2007; Tabachnick and Fidell, 2007). This assumption implies that models with a greater number of parameters require larger samples (Kline, 2011). In line with the above-recommended guidelines and justification, primarily it was decided that the target number of usable responses for this study would be around 300. Eventually, a sample of 302 data was considered as the final sample size for the current study.

### **3.6 Data Collection**

This particular research evaluates the responses from small business owners and managers; therefore, „face to face“ survey administration technique was selected as the main method of data collection. Besides, the „drop off and collect“ technique was also employed where the researcher delivered the questionnaire personally and called the respondents for the purpose of collecting the questionnaire once it was completed by the respondents. A key characteristic of this technique is the absence of the interviewer thereby eliminating response errors due to interview bias (Lovelock et al., 1976; Moutinho and Evans, 1992). However, for carrying out the survey, a questionnaire was developed soliciting the small business“s participation, and explaining the purpose of the survey and the directions on how to respond to it. Moreover, the data collection process approximately took about six (6) months, starting from February until August 2014.

### **3.7 Measure**

The Likert scale is a popular measurement and commonly used the practice of analysing the data which indicates whether a person agree or disagree with a statement. This research used a 5- point Likert scale for constructing the questionnaire by putting preferences to the items considered in the past studies. Moreover, a 5-point Likert scale asks respondents to provide a relative assessment of various statements in the questionnaire on a continuum ranging from „strongly disagree“ to „strongly agree“ that are very commonly used for collecting primary data in empirical research (Ward et al., 1998).

### **3.8 Statistical Analysis of Data**

This research employs Structural Equation Modelling (SEM) for statistical analysis of data, which is developed for analysing the interrelationships among multiple variables in a model (Zainudin, 2012). This statistical tool analyses the theoretical model hypothesized by a researcher

(Schumacker and Lomax, 2004). Added by Schumacker and Lomax (2004), they mentioned that different kinds of theoretical models such as regression, path and confirmatory factor models can be tested at the same time by SEM. Consequently, SEM techniques have been significant to confirm theoretical models for using a quantitative approach. Besides, according to Schumacker and Lomax (2004), sophisticated theoretical models of complicated phenomena can be analysed by the capability of SEM, therefore less reliance on general statistical methods is needed, while other multivariate methods are incapable of modelling multivariate relations. Therefore, evaluating these circumstances, this study considers SEM as a suitable tool for analysing quantitative data in research progression.

#### **4. Findings**

This section presents the empirical findings through the statistical analyses of the data collected for the study. The following section describes demographic information, company information, exploratory factor analysis, reliability analysis, assessing the mediating relationship and hypotheses testing.

##### **4.1 Demographic Information**

The demographic information comprises the gender, age, race, level of education and respondents' designation in the respective company. This part, in fact, provides a detailed scrutiny of demographic information. Table 1 portrays the respondents' demographic profile that highlights their gender, age, race, level of education and their designation as a whole in one table for clearer, discernible understandings.

**Table 1: Demographic Information of the Research Participants**

<b>Demographic Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	178	58.9
Female	124	41.1
Total	302	100.0
<b>Age &lt;20</b>		
	21	7.0
20-29	162	53.6
30-39	79	26.2
40-49	21	7.0
≥50	19	6.3
Total	302	100.0
<b>Race Malay</b>		
	177	58.6
Indian	43	14.2
Chinese	82	27.2

Total	302	100.0
<b>Level of Education</b>		
Primary School	29	9.6
Secondary School	58	19.2
Diploma	113	37.4
Bachelor	78	25.8
Masters Degree	24	7.9
Total	302	100.0
<b>Designation</b>		
Owner	129	42.7
Manager	173	57.3
Total	302	100.0

Above Table 1 shows that both male and female are in good numbers participating in the study. Among 302 respondents, it is observed that 178 are male where 124 are female, which means the percentages of male and female respondents are 58.9 percent and 41.1 percent respectively. Additionally, Table 1 also shows that the age range of 20-29 years is 53.6 percent with the highest frequency of 162 and 30-39 years' age range covers 26.2 percent of total respondents having a second highest frequency of 79 out of 302. Besides, the age range of 40-49 years consists of 7.0 percent with 21 frequency as well as 50 years and above, which is coded as „≥50“ includes only 6.3 percent or 19 respondents out of 302 respondents. With the age diversity among respondents, there are diverse races like Malay, Indian and Chinese are also engaged with small businesses, where the engagement of Malay, Indian and Chinese is 58.6 percent, 14.2 percent, and 27.2 percent respectively. The table also indicates that 177 respondents (58.6 percent) are found Malay originated business owner or manager while 43 respondents (14.2 percent) are Indian, and another 82 respondents (27.2 percent) are Chinese. Hence, Chinese is having a better enterprise compared to Indian after Malay entrepreneurs.

Out of 302 respondents, 29 respondents (9.6 percent) passed primary school, 58 respondents (19.2 percent) completed secondary school, 113 respondents (37.4 percent) hold diploma, 78 respondents (25.8 percent) have a bachelor degree and only 24 respondents (7.9 percent) were with masters' degree with regard to educational qualification, where a total of 129 respondents (42.7 percent) are noticed as business owner, whereas 173 respondents (57.3 percent) are found as business manager among those 302 respondents.

#### **4.2 Company Information**

The company information draws an outline of a company or enterprise, which is a background of a venture. In this particular study, the company information indicates three major things covering types of business, length of operation and the number of employees. Table 2 presents the general information regarding the companies surveyed in the study.

**Table 2: General Information of the Companies Surveyed**

General Information	Frequency	Percentage
<b>Types of Business</b>		
Manufacturing	78	25.8
Service	224	74.2
Total	302	100.0
<b>Length of Operation</b>		
≤2 Years	216	71.5
>2 Years	86	28.5
Total	302	100.0
<b>Number of Employees</b>		
≤5	191	63.2
>5	111	36.8
Total	302	100.0

Refer to the Table 5.2, the percentages of manufacturing and service industries are 25.8 percent and 74.2 percent respectively, where 78 enterprises are involved with manufacturing activities, and 224 enterprises are engaged with service sectors, and there are 216 enterprises or 71.5 percent of businesses are operating their business less than two years, along with 86 enterprises or 28.5 percent of businesses are comparatively matured, having their business more than two years according to the respondents' statements. Table 2 also expresses the number of employees by definite numbers where 191 enterprises are found to have „5 employees and less“, which is equivalent to 63.2 percent. On the other hand, the rest of 111 enterprises (36.8 percent) are observed in the group of „more than five employees“ category.

#### 4.3 Exploratory Factor Analysis

Prior to conducting Structure Equation Modelling (SEM) to assess mediating effect, Exploratory Factor Analysis (EFA) is performed to scrutinize the underlying dimensions of Financial Knowledge (FK), Financial Practice (FP) and Business Success (BS). This is done in order to derive the benefits of data reduction from a larger set of items resulting into those that are representative of a particular variable. Such analysis, according to Hair *et al.* (2010), helps retain the „nature and character“ of the initial items, and simultaneously reduce their numbers so as to simplify the subsequent multivariate analysis, which is Structure Equation Modelling (SEM) in this case. It is performed by figuring out the groups among the inter-correlations of a set of variables (Pallant, 2007).

In this study, the analyses are done after checking the suitability of the data for this purpose; to this end, two measures are checked: Bartlett test of sphericity (to be significant at  $p < 0.05$ ) and Kaiser-Meyer-Olin (KMO), the value of which is to be 0.7 or above. Factor extraction is carried out through Principal Component Analysis (PCA) and varimax rotation.

After necessary rotation, three factors representing this variable emerge. The KMO value of 0.857 and Bartlett's test of Sphericity ( $p = 0.000$ ) indicate the appropriateness of such analysis,

which is assuredly significant in statistical viewpoint. However, Table 3 demonstrates the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA), Bartlett’s Test of Sphericity, Approximate Chi-Square, Degree of Freedom (df) and Significance (Sig.) altogether.

**Table 3: KMO and Bartlett’s Test**

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>		<b>.857</b>
	Approx. Chi-Square	4190.487
Bartlett’s Test of Sphericity	df	406
	Sig.	.000

As it is mentioned earlier, PCA with varimax rotation was performed on the collected data. Three latent factors were extracted with Eigen values greater than one; explaining 55.70% of the total variance. Alternatively, Table 4 exhibits that the factor loadings are between 0.531 and 0.773. Following the guideline provided by the scholars (Nunnally & Berstein, 1994; Byrne, 2010; Hair et al., 2010, Kline, 2011), all three factors were renamed as Financial Knowledge (FK), Financial Practice (FP) and Business Success (BS) under the circumstances. **Table 4: Loadings Four Rotated Factors**

Code	Items	Financial Knowledge (FK)	Financial Practice (FP)	Business Success (BS)
Q1	Our employees obtain a good extent of new financial knowledge from internal and external sources	.697		
Q2	Our employees gain new financial knowledge from business partners and rivals	.728		
Q3	Our enterprise recognizes financial knowledge creation as a resource	.752		
Q4	We look for opportunities to learn more about financial knowledge for internal operations and customers	.730		
Q6	Our enterprise encourages and rewards the sharing of financial knowledge	.704		
Q7	Our enterprise encourages engaging in dialogue or brainstorm session for new financial knowledge	0.773		
Q8	Workshops and training programs are thought sufficient in our enterprise for financial knowledge	0.743		

Q10	Protecting one's knowledge is considered to be a way of life in this enterprise	0.707
Q11	Personally gained experience is considered as an important input for financial knowledge in our enterprise	0.761
Q12	Our enterprise is fair in knowledge-related performance measurement	0.686
Q14	The enterprise has better communicated relevant knowledge with employees for better financial practice	0.531
Q27	Our enterprise provides sufficient managerial and operational efforts for financial control	0.707
Q28	The environment of our enterprise has established a suitable process which supports controlling of finance	0.757
Q29	In our enterprise, all financial statements are sent out to the respective people in a timely manner	0.747
Q30	The enterprise controls its finances, make ends meet, plan for the future and choose a suitable financial practice	.616
Q32	Asset and liability records are kept in proper manner in our enterprise	0.596
Q33	Our enterprise's asset, liability and risk management philosophy is composed of a set of shared knowledge and behaviour characterizing how it manages financial activities	0.581
Q34	Our enterprise's asset, liability and risk management is based on management's established risk appetite	0.609
Q38	Our enterprise's profit margin has increased	0.733
Q39	Our enterprise's market share has increased	0.752
Q40	The demand for the products made by our company has increased	0.736
Q41	Our enterprise's efficiency has increased	0.701
Q42	The number of employees has increased in our enterprise	0.615
Q43	There is an improvement in preparing for the future financial growth	0.680

#### 4.4 Reliability Analysis

Reliability analysis is a measurement of the overall consistency of the items that are used to define a scale. According to Hair *et al.* (2010), reliability is an “assessment of the degree of consistency between multiple measurements of the variables” (p. 137). In other words, it points to the extent to which a scale, given that it is repeated multiple times, generates consistent results. In this study, it is measured using Cronbach alpha as an indicator of internal consistency among the variable items with the cut-off value of 0.7 being appropriate for SEM. **Table 5: Reliability Statistics**

Variable	Cronbach’s Alpha	N of Items
Financial Knowledge (FK)	0.909	11
Financial Practice (FP)	0.827	7
Business Success (BS)	0.833	6
<b>Overall</b>	<b>0.897</b>	<b>24</b>

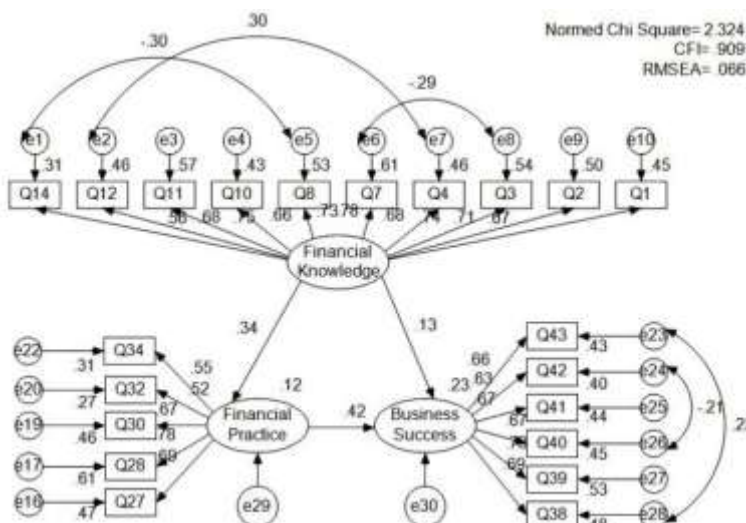
However, the internal consistency of all the factors was achieved by computing the Cronbach’s alpha coefficient of the four extracted factors those were retained by PCA. In view of the guidelines by reputed researchers (Cronbach, 1951; Sekaran & Bougie, 2010), the Cronbach’s alpha was calculated to assess the reliability of the extracted factors as presented in Table 5 above.

The values of Cronbach Alpha in the above Table 5 signify that all the scales exhibit adequate internal consistency, ranging from a minimum of 0.827 for Financial Practice (FP) to a maximum of 0.909 for Financial Knowledge (FK). The other factor Business Success (BS) also achieved a very satisfying reliability of 0.833 in both cases. Besides, the overall reliability is observed 0.897, which is also highly satisfactory. Moreover, it is conceivable that the overall consistency of the items seems adequate for the supplementary analyses.

#### 4.5 Assessing Mediating Relationship

The mediating or intervening variable is the arbitrator that strings the relationship as a minimum with two constructs (Hair *et al.*, 2010). In this study, the mediating relationship of Financial Practice (FP) as a mediator between Financial Knowledge (FK) and Business Success (BS) is assessed. The selection of the mediator is built through three relationships: firstly, the direct effect of the independent variable in the direction of the dependent variable; secondly, measuring the indirect effects of independent variable towards the dependent variable, and finally, it should be figured out whether there is a positive impact in the mediating and dependent variable. Consequently, as in the Figure 2, the initial model displaying the path values where the Financial Knowledge (FK) and Business Success (BS) as well as the Financial Behaviour (FB) and Business Success (BS) are found statistically non-significant. As a result, this is an indicator of having a full mediation in the model. However, following Figure 2 shows a model of Financial Practice (FP) as a mediator between Financial Knowledge (FK) and Business Success (BS).





**Figure 2:** Financial Practice (FP) as a mediator between Financial Knowledge (FK) and Business Success (BS)

The first path coefficient (Financial Knowledge  $\rightarrow$  Financial Practice) shows an acceptable result that can be judged via Critical Ratio (C.R.) and significance level (P). As C.R. is greater than 1.96 and P is significant, thus, it can be exemplified that the regression weight for Financial Knowledge (FK) in the prophecy of Financial Practice (FP), which is significantly different from zero at the 0.001 level (two-tailed). Besides, the second path coefficient (Financial Practice  $\rightarrow$  Business Success) also confirms an adequate result that can be determined using Critical Ratio (C.R.) and significance level (P). Since the C.R. is greater than 1.96 and P are significant, as a result, it can be signified that the regression weight for Financial Practice (FP) in the prediction of Business Success (BS) is considerably different from zero at the 0.001 level (two-tailed). Hence, there is a true mediating relationship exists between Financial Knowledge (FK) and Business Success (BS) when Financial Practice (FP) is treated as a mediator.

**Table 6: Financial Practice (FP) as a mediator between Financial Knowledge (FK) and Business Success (BS) (Maximum Likelihood Estimates)**

			Estimate	S.E.	C.R.	P
Financial Practice	<---	Financial Knowledge	0.610	0.132	4.602	***
Business Success	<---	Financial Practice	0.345	0.066	5.213	***
Business Success	<---	Financial Knowledge	0.192	0.098	1.950	.051

Furthermore, the third path coefficient (Financial Knowledge  $\rightarrow$  Business Success) does not show the acceptable result that can be proved using Critical Ratio (C.R.) and significance level (P) values. In this circumstance, the C.R. value is 1.950, which is lower than 1.96, as well as the P value is 0.051 that is greater than 0.05. Thus, this is not significant. Therefore, there is no direct relationship between Financial Knowledge (FK) and Business Success (BS), which is a sign of the

full mediating relationship while there is a factual intervening relationship exists between Financial Knowledge (FK) and Business Success (BS) when Financial Practice (FP) plays a mediating role.

#### 4.6 Hypotheses Testing

However, total four hypotheses, including mediating relationship, have been answered by goodness-of-fit indices, showing that Financial Knowledge (FK) influences Financial Practice (FP) and Financial Practice (FP) influences Business Success (BS). Moreover, Table 7 summarizes the findings on the hypotheses in this research framework. **Table 7: Summary of Hypotheses Testing**

H(x)	Hypothesis	Finding
H1	Financial Knowledge (FK) is positively related to Financial Practice (FP)	Supported
H2	Financial Practice (FP) is positively related to Business Success (BS)	Supported
H3	Financial Knowledge (FK) is positively related to Business Success (BS)	Not Supported
H4	There is a mediating relationship through Financial Practice (FP) between Financial Knowledge (FK) and Business Success (BS)	Supported

#### 5. Conclusions and Implications

This study is an attempt to assess the mediating relationship of financial practice between financial knowledge and business success in Malaysian small business. The findings of the study may provide some implications in Malaysian small businesses. As an empirical study, this research added value to the current level of knowledge in the existing literature on the small business in the Malaysian context, academically and empirically. This systematic assessment of structural relationships among the constructs facilitates a clearer understanding of the nature of the financial practice of small business and how it can further contribute up to business success. Predominantly, this particular study has identified a few important dimensions of the business success of small business in Malaysia. This study, thus, has significantly contributed to the empirical evidence of the Financial Knowledge (FK), Financial Practice (FP) and the Business Success (BS) of small business in Malaysia through empirical testing of the structural relationships.

Small business in Malaysia still has lacks in the apparent idea of combining financial issues with individual's intention and knowledge. As well as how these all together can play an „input-processing-output“ game within an enterprise. In fact, this can be a methodological enhancement of the research. However, this study proposes a valid and reliable instrument to measure the antecedences of financial practice for the success of small business in Malaysia. Therefore, the research significantly contributed in the methodological development in the Malaysian small business.

Conversely, on the practical execution level of financial matters, this study mainly focuses on individuals those who directly and indirectly handle the financial substances. As mentioned

earlier, the respondents of this research were the enterprise owners and managers to get the internal, financial and operational information. Thus, internal organizational practice and methods were asked, where the findings show the way to modify some certain practices for doing a better performance so that business will get success. These implications are for the enterprise owners, managers and of course for the entrepreneurs of Malaysian small businesses.

Furthermore, this research conveys an understanding to the entrepreneurs regarding the knowledge items those are more essential and play as the remedy to get the business success swiftly. This research, in fact, will help to identify the requirements and solutions for finding out the policy to strengthen the enterprise and maximize the productivity and sustainable development. This will increase the efficiency that would be the ultimate step for business win for any business, as to small business in Malaysia.

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