Role of Financial Antecedents on Financial Performance of Micro Entrepreneurs in Sarawak, Malaysia

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Role of Financial Antecedents on Financial Performance of Micro Entrepreneurs in Sarawak, Malaysia

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2019
DECLARATION

The work describes in this research entitled “Role of Financial Antecedents on Financial Performance of Micro Entrepreneurs in Sarawak, Malaysia” is to the best of the author’s knowledge that of the author except where due references is made. The thesis has not been accepted for any degree and is not concurrently submitted in candidature for any other degree.

_____________________
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DEDICATION

Specially dedicated to my parents, parent in laws, husband, daughter, sons, family, supervisors and friends.
ACKNOWLEDGEMENT

‘Faith is taking the first step even when you don’t see the world staircase’

-Martin Luther King Jr

Alhamdullilah. In the preparation of this dissertation, I would like to express my sincere appreciation for the guidance and assistance given by people around me. Life as a PhD student, a mother of four children has never been easy. First, I am deeply appreciated my supervisor, Dr Hamrila Abdul Latiff and Associate Professor Dr. Kartinah Ayupp for her sincere guidance, motivation and encouragement throughout the way of completing this dissertation. From her wide experience in research, she has enriched my understanding of knowledge and research from beginning until end of chapters. Thus, the completion of this dissertation has been made possible only through the encouragement and support of many individuals. First, a special thanks goes to my beloved husband, Mohammad Fardillah Bin Wahi, he has always been there whenever I need support. I could certainly not have completed this journey without him.

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ABSTRACT

Based on the Census of Establishments & Enterprises 2016 by the Department of Statistics Malaysia, out of the 907,065 SMEs established in Malaysia, 693,670 (78.7%) business establishments were contributed by the Micro Enterprises (MEs). A microfinance institution is the part of the microenterprise and the entrepreneur that taking up loan from microfinance called the micro entrepreneurs. The success of a firm performance relies on the resource and micro entrepreneurs’ competency. Substantial evidence of the micro entrepreneurs has been supported by Resource-based theory (RBV) and Entrepreneurial Competency Theory has been reported in the literature. This study sought to establish the relationship between entrepreneur financial literacy, financial access, dynamic incentives, and micro entrepreneurs’ firm performance in Sarawak, Malaysia. A cross-section design was adopted for the study from representative sample of 400 micro entrepreneurs all over Sarawak Malaysia. Implications of the results show that entrepreneurs’ financial literacy is negatively associated with micro entrepreneurs’ firm performance but for the rest, have positively associated with dynamic incentives and micro entrepreneurs’ firm performance. The insights of my research are an essential contribution to the conversation of micro entrepreneurs’ firm performance in the extent literature. Therefore, the joint effects of entrepreneur financial literacy and dynamic incentives with micro entrepreneur’s firm performance significant and thus government should take further steps to improve it.

Keywords: Financial literacy, financial access, dynamic incentives, firm performance
ABSTRAK

Berdasarkan Banci Pertubuhan & Perusahaan 2016 oleh Jabatan Perangkaan Malaysia, daripada 907,065 PKS yang ditubuhkan di Malaysia, 693,670 (78.7%) terdiri daripada perniagaan yang disumbangkan oleh Perusahaan Mikro (MEs). Institusi Kewangan Mikro adalah sebahagian daripada Perusahaan Mikro (MEs) dan usahawan yang mengambil pinjaman dari pembiayaan mikro ini dinamakan usahawan mikro. Prestasi perniagaan di kalangan usahawan mikro dipengaruhi oleh sumber dan kecekapan usahawan dan dibuktikan oleh teori sumber daya (RBV) dan teori kecekapan keusahawanan yang telah dilaporkan dalam kajian literatur. Kajian ini bertujuan untuk mewujudkan hubungan antara celik kewangan usahawan, akses kewangan, insentif dinamik, dengan prestasi perniagaan usahawan yang terdiri daripada 400 usahawan mikro di seluruh Sarawak, Malaysia. Penemuan kajian ini membuktikan hubungan negatif di antara celik kewangan dengan prestasi perniagaan usahawan mikro dan objektif selebihnya, menunjukkan hubungan yang positif dengan insentif dinamik dan prestasi perniagaan usahawan mikro. Hasil penyelidikan ini, telah memberi sumbangan penting kepada kajian literatur prestasi perniagaan usahawan. Oleh itu, kesan moderasi di antara celik kewangan usahawan dan insentif dinamik dengan prestasi firma usahawan mikro membuktikan hubungan yang positif dan oleh itu kerajaan perlu mengambil langkah penambahbaikan sewajarnya.

Kata kunci: Celik kewangan, akses kewangan, insentif dinamik, prestasi perniagaan
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<td>AIM</td>
<td>Amanah Ikhtiar Malaysia</td>
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<td>TEKUN</td>
<td>National, Malaysian Technology Development Corporation</td>
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<tr>
<td>SEDC</td>
<td>Sarawak Economic Development Corporation</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
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<tr>
<td>YUM</td>
<td>Yayasan Usaha Maju</td>
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<td>PLS</td>
<td>Smart Partial Least Square</td>
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<td>SEM</td>
<td>Structural Equation Modeling</td>
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<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
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<td>CMV</td>
<td>Common Method Variance</td>
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<td>RBV</td>
<td>Resource Based View</td>
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<tr>
<td>MTDC</td>
<td>Malaysian Technology Development Corporation</td>
</tr>
<tr>
<td>MDEC</td>
<td>Multimedia Development Corporation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-Operation and Development</td>
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CHAPTER 1
INTRODUCTION

1.1 Preamble

This chapter presents the context of the study and a brief description of the antecedent key variables of the study, namely, financial literacy and financial access. Entrepreneur financial literacy consists of financial management, budgeting, debt, savings and insurance whilst financial access comprises the utilization of loans, savings, insurance as well as formal and informal sources. Furthermore, this chapter also discusses dynamic incentives, proposed as the moderating variable in the study. In addition, the discussion on the micro entrepreneur firm’s performance includes the financial and non-financial indicators as well as a brief review of micro entrepreneurs in Malaysia. In essence, the first chapter of this thesis presents the research problem, its objectives and the significance of the study.

1.2 Background of the Study

Micro enterprise plays an important role in achieving Malaysia’s Vision 2020 (Khan, Liew, & Ghazali, 2014). It was predicted that Malaysia’s economy in 2018 would remain at a sensible growth of between 4.0% and 4.5%, driven by funding from the private sector with diversification in the economic structure, the establishment of the financial system and the stabilization of the government’s policy (Bank Negara Malaysia, 2015). As indicated by the report released by the Department of Statistics Malaysia (2019). The continued to fall under RM18, 000 (US$5,625) every year altogether, which was lower than the yearly pay of RM48, 000 (US$15,000) targeted by 2020. Micro enterprises constitute about 76.5% of all businesses in Malaysia and employ over 1.2 million employees. In this regard, out of the
total 907,065 Malaysian SMEs, 693,670 (78.7%) business foundations identified as micro enterprises (MEs) (Department of Statistics Malaysia, 2016). The same report has also indicated that smaller scale endeavors in Malaysia outlined by yearly sales turnover being under RM300,000 with the number of permanent employees fewer than five. These statistics based on sectors such as manufacturing, services, and other areas. As a result, the Malaysian government has launched several programs and schemes to enhance the performance of micro entrepreneurs’ firms.

Even though these micro enterprises are small, they are more responsive and capable of benefiting from such a position where larger enterprises are unable to embark on successfully (Bank Negara Report, 2010). Development Financial Institutions (DFIs), cooperatives and microfinance institutions (MFIs) likewise have a critical part in serving specialty gatherings of clients because of their fundamental commitments to the economy of Malaysia. Together with DFIs and cooperatives, in addition to microfinance institutions (MFIs) have an imperative part in providing financial and services to the potential clients in Malaysia. Furthermore, the Malaysia government encourages the small-scale business by giving monetary aids and offering support in terms of specialized assistance and providing help in the forms of management, highlighting, statistical surveying, and infrastructure support (Skuras et al., 2003). Over RM9 billion in the form of financial aids given to in excess of 414,000 Bumiputera organizations. Amanah Ikhtiar Malaysia (AIM), TEKUN National, Malaysian Technology Development Corporation (MTDC), Malaysia Venture Capital Management Berhad, Malaysia Debt Ventures Berhad, and Multimedia Development Corporation (MDeC) are among providers of financial alternatives to Bumiputera SMEs for their development and growth process (Zairina Abd Rahman & Wan Mohammad Zainuddin, 2009). These organizations assist in the development and build-up
SMEs. The funding provided to micro enterprises by the organizations above known as microfinance; hence, the owners of these micro enterprises known as micro entrepreneurs. By looking into a new research stating thus study also, investigate the antecedents of firm performances. It also proposes that dynamic incentives moderates the associations among between both dimensions. Micro entrepreneurs in many nations have faced difficulties in obtaining funding, challenges in innovation, deterioration in the quality of business leadership skills, low profitability and administrative weights in their business condition. Financial literacy one of the challenges among micro entrepreneurs and has a significant effect on the business performance (Patrick, 2015). Microfinance institutions considered as generators of business, household income and employment, which contribute to a decline in the overall poverty rate and other aspects of sustainable socioeconomic development. The importance of developing microfinance is not only to boost the economy, but also to help the poor in both the rural and the urban areas (Bakhtiari, 2006; Kumar, Bohra & Johari, 2008; Gurses, 2009; Ali & Alam, 2010). Hence, a study of factors related to microfinance will shed some light on the promotion of growth and competitiveness of the sector (Farghly & Bary, 2018). This study will use the dimension from financial literacy, financial access and dynamic incentives of micro entrepreneur’s performance in Malaysia. The findings may help micro entrepreneurs and microfinance organizations understand how financial antecedents influences dynamic incentives and micro entrepreneur’s firm performance.

1.3 Problem Statement

Problem statement provides a summary of the current problem in the context of this study, which the researcher would like to address. A good articulation of the problem statement helps the researcher achieve the goals of each research process (Dine, McGaghe,
Bordage, & Shea, 2015). Today, innumerable government and non-government organizations direct their attention to micro entrepreneur’s firm performance (Jeong & Shin, 2019) which leads to the utilization of various methods in measuring financial literacy, financial access and dynamic incentives. Nevertheless, there is still limited empirical evidence in the studies done on financial literacy, financial access and dynamic incentives especially in the field of micro entrepreneur’s firm performance in Sarawak, Malaysia. Thus, the level of financial literacy, financial access and dynamic incentives among micro entrepreneurs is unknown. In addition to that, previous studies have highlighted various research gaps that need to be filled. Therefore, the problem statement of this study, as well as the research gaps, is accentuate based on three perspectives, which are, theoretical, empirical, and practical as follows.

According to the report by the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia), at least 75% of the business failed during their first year of operation (Musa, Shuib, Hafizah & Mohamad, 2016) compared to other developing countries. Previous has failed to provid empirical evidence on micro entrepreneurs firm performance (Tenyson & Nojuyen, 2001; Bernheim, Garret and Maki, 2001; Mandel, 2008; Remuld, 2010; Monticone, 2010; Lusardi & Mitchell, 2014). This scenario signaling for government and microfinance provider need to take serious action to tackle the real problems faced by Malaysian micro entrepreneurs. Past research has revealed that microfinance and entrepreneurship are very powerful instruments of economic development that can help to minimize poverty and introduce new business with innovation (Kabiro & Maina, 2016). Micro entrepreneurs can also utilize resources, which include financial, to make the most out of their ventures with much more productive techniques that can achieve greater and more productive final results (Sh. AsadEjaz & Ramzan, 2012). Financial literacy is one of
imperative element in managerial competencies among micro entrepreneurs firm performance need further investigation and the topic still on debate (Spinelli, Timmons & Adams, 2011). Furthermore, financial literacy is currently perceived as an element of financial strength which leads to with the development of the performance of SMEs (Abiodun, 2016). Managers who lack financial literacy will arguably contribute minimal or no improvement at all to the development of their businesses (Lusimbo & Muturi, 2016).

Secondly, microfinance organizations provide access to capital in starting and developing the business. Lack of financial access provided by formal financial institutions and government agency can be one of the challenges among micro entrepreneurs in Malaysia, which contributes, to the failure of the business (Hashim, 1999; Salleh & Ndubisi, 2006; Soon, 2011). Numerous studies have discussed the lack of capital and issues of poverty among micro entrepreneurs which show the micro entrepreneurs are more financially compelled than vast firms and are more averse to approach a formal finance (Beck & Demirguc-Kunt, 2006; Rojas Suerez et al., 2010; Atkinson et al.,2012).

Thirdly, micro entrepreneurs faced challenging in securing their finance with high management cost charged. For example, AIM charges 10% yearly for one loan scheme. Loans granted without collateral and interest rates lead to moral hazards and asymmetric information. The innovation in microfinance mechanism, which called dynamic incentives widely used, has largely remained unobserved (Morduch 1999, Armendariz and Morduch 2005, Rutherford 2001). Dynamic incentives are being introduced to prevent strategic default or reluctant for loan repayment once the capital received (Mehmood, 2013; de Quidt, Fetzer, & Ghatak, 2016). Lack of financial literacy among entrepreneurs in managing their credit and resources leads to unmanageable loans, which eventually result entrepreneurs tied up with more than one loan (Barney, 1991; Harrison et al. 2004). Dynamic
incentives rewarded to the micro entrepreneur’s shows negative relationships with SMEs financial performance due to interest payment must be pay periodically (Shuid & Noor, 2012). The question is, if micro entrepreneurs has more than one loan of five years’ duration, how much does the micro entrepreneurs actually pay back? This situation leads to questions on both sides, that is, how effective are the micro entrepreneur’s financial provider and the micro entrepreneurs in managing their own credit. The inconsistencies of findings between dynamic incentives and performance that requires the researcher to fill up the knowledge gaps.

Lastly, measuring and evaluate the firm performance among micro entrepreneurs is one of the crucial in business field (Trailer, Hill, & Murphy, 1996). Financial performance in management study has generally been used as an outcome to achieve the desired results while measure versus its outputs and even encompasses with positive aspects related to economic performance, market place performance together with shareholders’ goals (Richard, Devinney, Yip & Johnson, 2009). Campbell (2007) has emphasized that non-financial indicators apparently contribute to “the financial indicators in determining the firm’s overall performance and success” (p. 297). This has been evident from the literature of the non-financial measure of performance similarly called an operational measure and is additionally viewed as critical in estimating the performance of small companies as, unlike the financial measures, the non-financial performance measures cause managers and proprietors to determine the advance of the business notwithstanding the trouble in its estimation (Ittner & Larcker, 2003). This leads to main argument held by researchers is that a researcher should implement and vindicate at least two different forms of firms performance, and that these should be to be both financial and non-financial measures