

## Management Practice: Mediator of Business Experience and Enterprises Performance in Microcredit Program

<sup>1</sup>Rosman Mahmood, <sup>2</sup>Sakinah Mat Zin, <sup>1</sup>Norudin Mansor

Faculty of Business Management

<sup>1</sup>Universiti Teknologi MARA (Terengganu), 23000 Dungun, Terengganu, Terengganu, Malaysia

<sup>2</sup>Universiti Teknologi MARA (Kelantan), 18500 Machang, Kelantan, Malaysia

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### ABSTRACT

This paper evaluates the association among business experience, management practice and enterprises performance. Also, the research estimates the effect of management practice as the mediator in business experience and enterprises performance relationship in microcredit program in Malaysia. Primary data were collected in Kelantan from 376 micro and small enterprises (MSE) samples. The state has a large majority of the microcredit recipients who manage their business under Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). The data was analyzed using multiple regression. Sobel test approach was adopted to test for mediation effect. The findings showed a significant relationship between the two variables of business experience and management practice with the performance of MSE's. Management practice is an important mediator in business experience and enterprises performance relationship. The results corroborated a partial type of mediation between business experience, management practice and enterprises performance. Hence, it explains the importance of business and effective management practices to ensure the survival of the MSE's, especially among Bumiputera entrepreneurs.

**KEYWORDS:** Business Experience, Management Practice, MSE's Performance, Micro and Small Enterprises, Microcredit.

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### INTRODUCTION

Economic growth in most countries is heavily dependent on developments in the micro and small enterprises (MSE's). The importance of the sector in influencing the overall performance of the domestic economy can be seen not only in the development process in developing countries but also in the developed countries [1]. Even in some countries, the role and contribution of the sector in the economic development of more effective compared to the larger industry [2]. This sector has a high capability in job creation [3], creating wealth and income [2], and accelerates the achievement of socio-economic goals more wide. In Malaysia, the development of this sector will not only serve as a catalyst of innovation and economic growth [4] but is also seen as an important mechanism to reduce the economic gap that exists between the races. The government is emphasizing the development of the sector in each of the economic development plans. The sector contributes significantly to the Malaysian economy, including increased 56.4% in employment and contributes 32.0% of gross domestic product (GDP) [5]. In addition, this sector is also able to reduce the income distribution gap, creating a more balanced development, eradicate poverty and establish a relationship between the industries.

Lack of financial capital is seen as a critical issue faced in the development of MSE's in particular in less developed countries [3]. This impediment is usually associated with insufficient internal funds and constrained access to commercial finance sector [6]. Based on the success of the Grameen Bank in Bangladesh, policy makers around the world see the microcredit program as a model to minimize the constraints that hinder the development of the MSE's. Through microcredit programs, target groups could engage in entrepreneurial activities which in turn will have a positive effect on their socio-economic status. Currently, microcredit programs have become an important mechanism in driving the development of MSE's not only in poor countries and the developing world, but the program is also a model for the development of MSE's in developed countries.

Microcredit program was first introduced in Malaysia in 1987 with the launching of Ikhtiar Malaysia (AIM), which is a replica of the Grameen Bank the oldest and largest in Asia [7]. In 1995, the program Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) was established specifically to meet the needs of capital among small traders and hawkers. Based on the success of AIM and TEKUN, minor capital funding approach through microcredit program continues to be an important approach of government to enhance its activities. In addition there is also a development financial institution that also provides microcredit program dedicated to the development of the MSE's. To ensure that the microcredit program is to continue to meet the financial needs of small, in June 2003, the National Small Medium Enterprise Development Council (NSDC) has approved the establishment of an institutional framework for a comprehensive microfinance micro to promote sustainable industrial development in Malaysia. The action plan also includes development finance institutions (DFIs) and credit cooperatives.

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**Corresponding Author:** Dr Rosman Mahmood, Faculty of Business Management, Universiti Teknologi MARA (Terengganu), 23000 Dungun, Terengganu, Malaysia, E-mail: [rosmanma@tganu.uitm.edu.my](mailto:rosmanma@tganu.uitm.edu.my)

Although microcredit programs become an important catalyst for the development of MSE's, the financial capital facility is not a single factor that can influence the success of a business. Instead of business performance is influenced by various factors that exist either within or outside the business organization [8]. Most studies on microcredit see more of the impact of the program on participating entrepreneurs. On the other hand, there is not much focus on the factors that can influence the performance of MSE's involved. Consistent with the theory of resource-based view (RBV), internal firm-specific factors are vital for firm performance [9]. In the phase of knowledge-based economy, human capital (including the business experience) is a component of Intangible assets has been seen as the most critical in influencing business performance [10]. The importance of human capital element in the business strategy has become critical [11] to increase competitive advantage and hence performance [12]. This situation reflects that there is a close relationship between management practices with business experience possessed in influencing the performance of a business. The longing to comprehend the role of management practice in the relationship between business experience and MSE's performance inspired this study. The objective of this study, therefore is to investigate the relationships among business experience, management practice and enterprises performance. Specifically, this study AIMS to (1) determine the relationship between business experience and enterprises performance, (2) ascertain the relationship between management practice and enterprises performance, and (3) elucidate the mediating effects of management practice on the business experience and enterprises performance relationship.

## LITERATURE REVIEW AND HYPOTHESES CONSTRUCTION

### Business Experience and Performance

Business experience signifies knowledge related to entrepreneurship and business obtained by the entrepreneurs before conducting business time. According to [13], business experience can be viewed from various perspectives that influence parents' business, engaging in business prior to own your own business, experience in helping start a business, how to make their business whether it is bought or established their own, education level operators and the position of partners in the existing business. Business experience is regarded as one of the prerequisites for starting a business and is considered to be an influential factor in firm performance [14]. The association between the entrepreneur experience as an important aspect of knowledge and firm performance was studied by [15] who stressed on the positive impact of the experience on the return on investment and sales growth. In [16] mentioned that experience and set of skills are important for the firm performance. Prior business experience, including knowledge and skills of entrepreneurs, can be a source of sustainable competitive benefit and thus helps to contribute to the better performance of a firm [17]. In [18] highlighted in their study of 300 manufacturing firms, that past years of entrepreneurs experience was considerably associated with performance.

Based on the Theory of Human Capital, business experience will greatly affect the performance of the firm [19]. The entrepreneur human capital, such as knowledge and experience before entering the business market has a positive relationship with the company performance thus, leading its entrepreneurial success [20]. In [21] highlights the growth of three groups of entrepreneurial skills; functional skills, relational skills and resource management skills in the association between previous knowledge and experience and the start-ups' success. Entrepreneurial work experience has some relationship with the effectiveness and accomplishment of entrepreneurial activity [22].

Experience owned seen to have significant impact on the ability to enhance the skills and knowledge among entrepreneurs. In fact, according to [23], in determining the status of firm success accomplishment, experience is more significant than education. With a lot of experience with helping operators improve efficiency in business management, make decisions and solve all the problems that arise. Experience-owned businesses are also seen to be expanding social networking among entrepreneurs. This situation allows them to identify business opportunities, identify suppliers and potential customers and funding sources to be tapped. Ownership and management experience can manoeuvre the firm towards growth-related opportunities, at the same time, helping it to avoid growth-related pitfalls [24]. In isolation, business owners who have former experience in management are prone to form successful businesses than those developed by inexperienced entrepreneurs [25]. Researchers believe one of the important factors in entrepreneurial success is business experience, predominantly if it is in a particular industry segment of the start-up business [26].

According to [27], results about the experience and business performance association is a mixed and inconsistent. This is because the influence of business experience on the business performance not only depends on the type of experience and resources of the experience gained, but also the type of industry involved [13]. Studies conducted by [28, 29] clearly show a positive correlated between experience-owned business entrepreneurs with business performance. The longer the experience they have, the higher the rate of growth and profits for the more job opportunities can be provided by the business venture [30]. In [31] studying on new small firms, found that many successful entrepreneurs who had had a broad business experience were raised by entrepreneurial. Prior experience in business has been seen as critical success factors for small firms [32].

The relationship between entrepreneur's experience and firm performance is positive if the experience is the same as the current business [28]. In addition, there are also studies such as [33] has not had great experience factor with the performance of the business relationship. According to [27], this condition may occur due to the experience of belonging has nothing to do with current business and help improve the skills and expertise in the management of a business. With significant experience, as explained by the literature, we present the hypothesis below.

H1: There is a significant relationship between business experience and enterprises performance.

### **Management Practice and MSE's Performance**

Management practice depends a lot on who manages the firm. In MSE's, the owner is also a manager who is responsible in developing the business strategy. His ability to plan the firm's development by analyzing the available resources can be regarded as a revealing factor of the organization's ability to grow [34]. Studies conducted by [35, 36] clearly show a positive relationship between management practices of an enterprise's performance. Management problems have been cited as a major cause of business failure for small businesses [37]. Research conducted by [38] on MSE failures in South Africa revealed that 90% of a sample of 1000 entrepreneurs failed primarily due to lack of management skill. In fact, according to [17], management practices are the most important factor in describing the influence on the performance of MSE's.

The four business management aspects, which become prerequisite for business growth are marketing, finance, human resource and operational management [2]. Good approach in these management areas would contribute positive influence on MSE performance [33]. The emphasis on all aspects of the management it is important to ensure that the MSE's can achieve economies of scale as larger enterprise obtained. Instead inefficiencies in management practices would lead to many problems that can affect business performance [39] include the impact on demand, failure to obtain and allocation of financial resources, and lack of stock. In [40] stress several ways to enhance the MSE's management practice to attain a more balanced view of the whole performance process that comprises the mechanisms for the development and implementation of good practice in performance management.

In [35] founds that marketing in terms of new product development, pricing, product quality, distribution strategy, advertising and promotion was the most important factor influencing business performance. Failure of entrepreneurs to focus on the marketing aspect is seen as factors that cause poor performance among small businesses. The importance of advertising and promotion is consistent with findings by [41] that relate to the marketing aspects of the profits earned. According to [42], expenditure on advertisement is needed not only by new firms and products, but also by the existing firms in order to sustain regular customers and attract potential customers.

Besides marketing practices, financial management is seen to have large impact on firm performance [35]. Businesses with good financial management skills tend to show increased sales revenue. On the other hand by [43], companies that have problems in obtaining financial resources and inefficiency in financial management will impact on the performance of small enterprises. Among the main weaknesses detected in the small enterprise financial management including financial management terms, such as bookkeeping, financial control, budgetary planning, and business records [4], which is associated with weaknesses in accounting practices. Financial reports are usually given less attention and are provided for the payment of taxes. Financial management skill is imperative for entrepreneurs in order to remain profitable and solvent. Business owners would be able to realize their daily financial goals provided that they have a good financial management system [44].

Amongst the interests of human resource management is the emphasis on training and evaluation of employee performance. Through the training, knowledge and competencies of entrepreneurs and workers will be enhanced. Completion stout literature [45] describes the MSE's entrepreneurs less concerned about building their skills through training to business and entrepreneurship. In the context of production, according to [46], efficiency in management allows enterprises to produce high quality products; built a reputation in the market and reduce operating costs. All these features can be the catalyst to the creation of high competitiveness and performance of MSE's. However, most small businesses produce less attractive design and poor quality products, as well as the use of technology is still lacking [47].

According to [48], operation skills are positively related with the viability of business. Efficient operations signify a main chance for MSEs to increase their output and prosperity on top of reducing costs and enhancing customer service [49]. The success of MSEs are intimidated by impediments that possibly will be in the firm operations. Such obstacles indicates the weakness of entrepreneurs in the management and operations, whereas fruitful entrepreneurs have acquired the indispensable abilities in operations and management [50].

Although the influence of each aspect of management on the performance of MSE's is different, but according to [23], performance shown by the small enterprises to emphasize to all four aspects of the management is better than companies that only focus on one or two areas of management. With the importance of management practices, the hypothesis is stated as follows.

H2: There is a significant relationship between management practice and enterprises performance.

### Business Experience, Management Practice and MSE's Performance

Business experience can be realized in general and specific knowledge and in skills of management. As for instance, an experienced human resource (HR) manager with dynamic change costs of training and work experience cannot be imitated for some time with the new HR and thus can result in performance recurrent distinctions [51]. Experience in working as a manager is one of the causes for achievement of a firm [52].

According to [53], to manage an organization, an individual needs to learn via previous experience as it denotes a kind of explicit human capital. Researchers mentioned that experience, correlates with Human Capital Theory, plays a crucial role in entrepreneurial activities [54]. Business experience would provide an entrepreneur with industrial knowledge, markets perception, and insight of the technologies. [27] stresses that different types of business experience are pertinent to entrepreneurship as it is may be according to various industries. This contention is verified by outputs which point out diverse kinds of management practices are employed in numerous industries [55]. With respect to aspects of management control, an entrepreneur with experience is likely to provide the firm with a boost, making the outside world more important. Business experience would positively influence management planning. Hence, an experienced entrepreneur is capable to plan his business effectively [56]. Competent managerial characteristics and experience of an entrepreneur can lead to competitive advantages and increased firm performance [57].

Business experience that relates to management practice of entrepreneurs can be categorized into the experience of industry and business purpose [58]. In marketing management, for instance, entrepreneurs sometimes encountered hesitation in setting up the price of the goods and services and the experience in industry tends to give a good consideration of meeting the consumers' demand. Business function experience, on the contrary, enables individuals to business activity trainings such as preparing, arranging and communicating. Hence, the ability of an individual to grab opportunity for the growth of business profitability and performance is an impact of having industry and business experience.

Moreover, individuals having family members indulging in business would study how to manage companies informally. Such experience is strongly related with their tendencies to start businesses of their own [59]. The entrepreneurial surrounding may impart a casual internship in the management practice. Having a business family member may generate understandings in business knowledge, skills and values.

Management practices and human capital (knowledge, experience, or skills) are considered as contributing factors of good business performance [60]. Researchers highlight that the deficiency of management competence means shortage of management knowledge that would lead to a negative impact on the business venture growth [61]. Entrepreneurs with a business experience and management practice can influence the firm performance as expounded in the hypothesis below.

H3: Management practice mediates the relationship between business experience and enterprises performance.

## RESEARCH METHOD

### Sampling and Data Collection

At first, sample frames containing 16,432 (TEKUN) borrowers were obtained from the TEKUN's headquarters. Then, the population was segregated into strata (districts). Each stratum has the size sample which was determined by population ratio of each stratum per total population. Following [62], 376 samples representing TEKUN. A self-administered questionnaire was given to the owner-manager of MSE's. The respondent is decision maker and problem solver in his firm [63]. Compared with other data collection methods such as by mail or email, face to face interview method carried out in this study is not a problem in terms of return on the questionnaires back to the respondent.

Table 1 shows the reliability tests for two variables used in the study with Cronbach's alpha higher than 0.7, as suggested by [64]. According to the one-sample Kolmogorov-Smirnov test, the data were parametric or normal as all the constructs surpassed the value of 0.5.

Table 1: Realibity Reliability test and One Sample Kolmogorov-Smirnov test

Construct	Item	Realibity Reliability test	One Sample Kolmogorov-Smirnov test	
		Cronbach's Alpha Coefficient	Kolmogorv-Smirnov Z	Asymp.Sig (2-tail)
Management Practice	24	0.907	1.294	0.070
Enterprises Performance	13	0.898	1.356	0.051

Source: based on the sample survey

### Measures

#### Dependent Variable

Dependent variable for this study is enterprises performance. An appropriate performance measurement is a critical issue in evaluating the success and failure of MSE's. This leads to the concept difficult to define precisely [65]. This study utilised subjective performance measures in accordance to a modified version of [2, 36].

According to [66], subjective method is well suited to micro enterprises that are usually associated with the unavailability of financial data that can be used as a performance measurement. Items included are sales revenue, profits earned, mitigation costs of production, business growth, contribution to the local community, the size of the market, jobs, business stability, market requirements, customer satisfaction and business networking. The respondents were told to rate the performance of their business for the past three years using a 7-point scale, ranging from “1 = strongly dissatisfactory” to “7 = strongly satisfactory”.

**Independent and Mediator Variables**

The instrument used to measure management practices in this study is based on management characteristics used earlier researchers including [2, 36]. Management practices are measured by 24 items, including ensuring that the sales market prices, credit to customers, the variety of products/ services, business and strive to establish a network of credit facilities from suppliers. The response of this 24-items questionnaire used a seven point Likert scale on which ranging from "1 = strongly dissatisfactory" to "7 = strongly satisfactory".

The measurement of experience is based on the number of years the respondents in the business before starting his own business. The method used by previous researchers, including [28, 29].

**RESULTS AND ANALYSIS**

Table 2 depicts the mean, standard deviation and correlation among the independent variables and between the dependent and independent variables. In order to test the three hypotheses in our research, we utilized multiple regression analysis. The results are presented in Table 3.

Table 2: Correlation between management practice, owner’s experience and business performance

	Mean	SD	Business Experience	Management Practice	Business Performance
<b>Business experience</b>	5.785	2.458	1.000		
<b>Management practice</b>	5.023	0.691	0.399***	1.000	
<b>Enterprises performance</b>	4.971	0.734	0.672***	0.682***	1.000

Notes: n = 376, \*\*\* p < 0.01

Source: based on the sample survey

To test the relationship between management practice, business experience and enterprises performance, regression analysis was used. Table 3 indicates the result of the regression analysis in which business experience is positively and significantly related to performance ( $\beta = 0.142, p < 0.01$ ). Therefore, this finding supports H1. It also evident that positive and significant relationship between management practice and enterprises performance ( $\beta = 0.523, p < 0.01$ ), and this support H2.

The hypothesized partial mediational effect of management practice on the relationship between business experience and enterprises performance was tested as specified by [67]. The MedGraph program was performed to illustrate graphically the mediation among the three variables. A modified version of Sobel test was utilized to calculate the Sobel z-value and the significance of the mediation effect of competitive advantage on the correlation between management practice and enterprises performance (see the results in Table 3 and Figure 1 respectively).

In accordance to [68], Table 3 indicates three models representing the steps necessary to test cross-level mediation that correspond to the steps involved to demonstrate mediation in standard hierarchical regression. According to [67], mediation has to be in four conditions and the outcomes portrayed the same (see Table 3). First, there should be an effect to be mediated ( $\beta = 0.201, p < 0.001$ ). Second, the relationship between business experience and mediator is significant ( $\beta = 0.112, p < 0.001$ ), and third, provided with management practice and business experience as predictors, the coefficient of the mediator (management practice) shows significant in regression three ( $\beta = 0.523, p < 0.001$ ). Last, the total effect of business experience on enterprises performance is less in regression three (standardized beta = 0.475) than in regression two (standardized beta = 0.672).

Table 3: Effect of owner’s experience as a mediator in association between management practice and business performance

Predictor	Management Practice			Dependent variable Enterprises Performance					
	Model 1			Model 2			Model 3		
	$\beta$	SE	Beta	$\beta$	SE	Beta	$\beta$	SE	Beta
<b>Intercept</b>	4.373***	0.084		3.811***	0.072		1.523***	0.164	
<b>Business Experience</b>	0.112***	0.013	0.399	0.201***	0.011	0.672	0.142***	0.010	0.475
<b>Management Practice</b>							0.523***	0.035	0.493

Notes: n = 376, \*\*\*p < 0.01

Source: based on the sample survey

Figure 1 depicts the findings of the significance of the mediation effect and type of mediation tested by calculating Sobel's z-value and ratio index using the MedGraph program. As shown in Figure 1, a Sobel z-value is 12.65 with p-value of 0.00 and the beta weight for the basic correlation between management practice and business performance ( $r = 0.475$ ,  $p < 0.001$ ). Hence, it is proven that there is a significant mediation of owner's experience in the association between management practice and enterprises performance as the Sobel z-value is large with a p-value less than 0.05. Hence, H3 is supported.

In fact, the correlation between the predictor variable (business experience) and the criterion variable (enterprises performance) has been significantly decreased (i.e. from 0.672 to 0.475) by the insertion of the mediating variable (management practice) in the third regression model [69]. Moreover, the considerable reduction of the relationship between independent variable and dependent variable (from 0.672 to 0.475) illustrates partial type of mediation. As indicated by the ratio index of 29.3% ( $0.197/0.672*100$ ), it entails that 29.3% of the effect of management practice on the enterprises performance undergoes the business experience and 70.3% of the effect is direct.

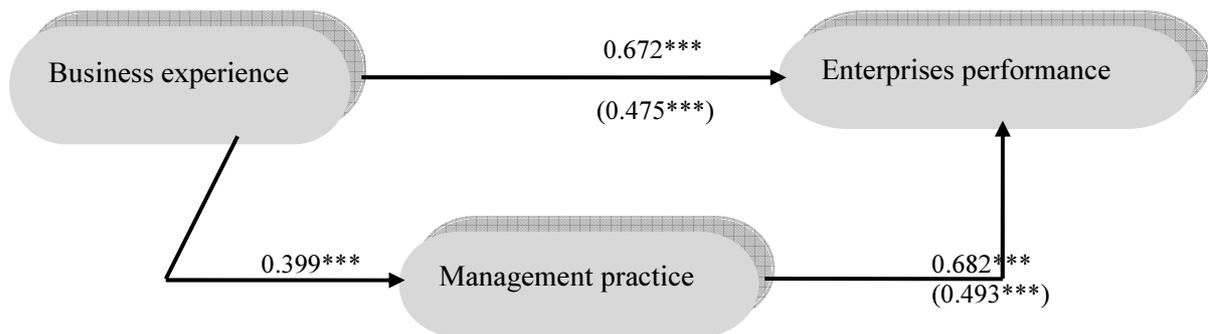


Figure 1: Hypothesized model of management practice as a mediator of business experience and MSE's performance

Type of mediator partial, Sobel z- value 12.65, significant 0.00

Standardized coefficient of management practice on enterprises performance (direct = 0.672, indirect = 0.197)

\* $p < 0.01$ .

## DISCUSSION AND CONCLUSION

This study investigates and makes contribution to the literature the relationship between business experience and enterprises performance and the mediating effect (management practice) on the association between business experience and the performance of enterprises in microcredit program in Malaysia. The findings of this study confirmed that business experience has a positive effect towards enterprises performance and is consistent with the findings described by [70, 28, 29]. Empirical research findings also indicate management practice has a significant positive correlation with the performance. The findings are consistent with the results of a study conducted by [38, 35, 36]. Analysis in terms of the influence of mediators, the findings indicate that mediating effect of management practice on the relationship between business experience and enterprises performance convinces the forms of mediation as highlighted by [67]. These findings clearly demonstrate business experience is an asset owned entrepreneurs are very critical in determining the pattern of business management practices which in turn will affect the performance of MSE's.

The results show the importance of management practices as a medium that can increase its influence on the association between experience and performance of MSE's business. In Resource-Based View (RBV) analysis, the results are in line with the theory that regards experience as a valuable component, unique, irreplaceable, and difficult to emulate and thus treated as a total strategic advantage able to produce business profitability and outstanding financial performance. According to [71], in addition to physical resources the firm's success also depends on the human capital and organizational resources better known as intangible assets. Business experience is seen as human capital might help an entrepreneur to prepare for the challenges of business ownerships [72] as well as a foundation of innovation and strategic rejuvenation [73]. The critical force that drives business growth [74]. In fact needs to aspects of intellectual capital (capabilities, competencies and knowledge) in business strategy has become critical [11] in creating value added [73], improving competitive advantage and hence performance [12] compared to the physical production factors. In summary, this study reinforces the importance factor of business experience and business practices in improving the performance. Business experience owned by entrepreneurs is the value of human capital can help to improve efficiency in the management and subsequent performance of MSE's.

## LIMITATION AND FUTURE RESEARCH

Apart from its strengths, this research also has some shortcomings that should be considered in future research. Actually there are many microcredit programs run by various parties in Malaysia. This study involved only microcredit programs provided by the government and does not involve the microcredit program conducted by NGO's and financial institutions. In addition, this study only involves the empirical evidence on the quantitative results of the study. To get a clearer picture, triangulation method needs to be done that involve quantitative analysis of findings supported the findings of a qualitative study. The combination of research methods will not only lead to the question of 'what' but also the 'how' and 'why'.

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