

# DOES EARLY PHASE OF BUSINESS CYCLE MODERATE SMALL BUSINESS SUCCESS? EMPIRICAL EVIDENCES FROM MALAYSIA

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**Abstract**— The purpose of this research is to assess the moderating effect of enterprise early phase in financial practice towards business success in Malaysian small business. The early phase is defined via length of operation of an enterprise. To achieve the research objectives, this study employed survey method where the enterprises with a different length of operation were considered for the analysis. In fact, a sample of 302 data was evaluated as the final sample size for the current research. Using Structural Equation Modelling (SEM), moderating effects were observed to test the hypotheses. The results indicate that, the enterprise early phase does have different moderating roles in financial practice to guide the business success in Malaysian small business. Thus, this research conveys an understanding to the entrepreneurs regarding the differences of enterprise early phase to achieve the business success swiftly. Finally, this research brings some implications to the policy makers and regulators as well.

**Keywords**— Enterprise phase, Business Success, Malaysian Small Business.

## I. INTRODUCTION

Life cycle of business has been fairly discussed in literature. Many tend to agree that a particular phase of an enterprise is a significant factor for achieving the business success (Santos and Bode, 2012). Fundamentally, this can be explained through lifecycle theory of an enterprise (Levitt, 2012). Putting the emphasis of financial practices, the lifecycle theory sheds light on a small business in various stages of its timelines. Likely other business and lifecycle phases, the growth life cycle theory also has a few stages, namely start-up or introductory, expansion or growth, maturity and decline stages (Hill, 2007; Azam et al., 2014). The start-up or introductory stage is the primary stage for small business. This stage is basically depends on owners' personal resources, family and friends' financing. In the expansion or growth stage, a small business which is recognized by the number of sales that is increasing and the emergence of competitors in the industry (Hill, 2007; Levitt, 2012). This stage is also depends on owners' personal resources, family and friends' financing, and at the same time there has an opportunity to have funding from external sources like government and other financial institution (Moha Asri and Manan, 2010; Azam et al., 2014). The maturity stage is the third stage that might be acknowledged as peak stage when rivals begin to leave the market. The financial sources for this stage are personal finance, external funding like bank loans and overdrafts, retained profits, income from leasing and so on (Hill, 2007; Levitt, 2012). Besides, for the small business, the sales statistics may reduce that before though the quantity of selling reaches a stable level. However, it is said that, typically loyal customers purchase the product when the company is at this particular stage. Finally, the decline stage is the fourth and last stage for a business where the

enterprise is taken over and withdrawal of finance does happen. Further after starting to fall from the peak, the selling and other activities also start to fall down this is explained as the declining stage for the business.

With these all interesting evidences, there is a common question raised whether an enterprise early phase moderate business success. This is issue is applicable to Malaysian small business as well since a lot of small business cannot sustain in the higher competitive market in Malaysia. So, this is also a burning question for Malaysian atmosphere. In this relation, this study embarks on the following objectives:

- (i) To assess the impact of enterprise phase (length of operation) on Financial Practice towards Business Success.
- (ii) To enhance the new understandings and recommend some potential implications for the business success Malaysian small business.

## II. LITERATURE REVIEW

Small business includes all businesses and enterprises except large enterprises (Rosman and MohdRosli, 2011; Azam and Moha Asri, 2015), because most of the businesses worldwide can be categorized as small businesses through judgmental reasoning (APEC, 2003). However, this definition also is also imposed in Malaysian perspective (Rosman and MohdRosli, 2011; Moha Asri and Azam, 2015). 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 own criteria, focusing on number of full-time employees and annual sales turnover mostly. According to a new

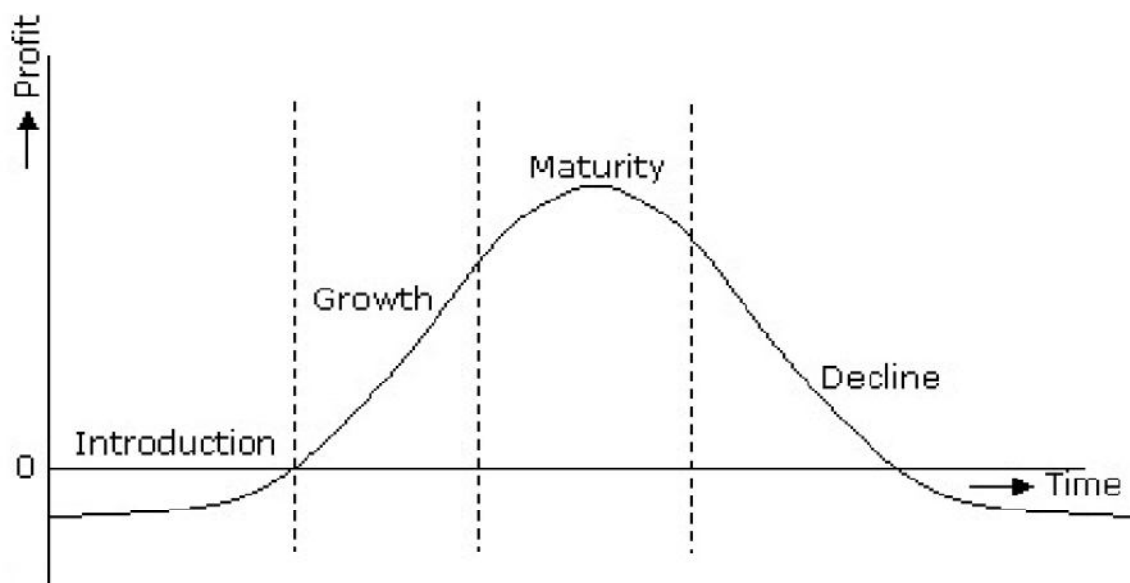
definition approved recently on 11 July 2013, an enterprise with sales turnover of less than RM30 million and/or full-time employee of less than 200 in the manufacturing sector is considered small and medium size business (SME Corporation Malaysia, 2013; Moha Asri and Azam, 2015).

In most industrially developed and developing economies, a growing number of small businesses need to access a wide range of sources of finance for their business success (Hussain et al., 2006). For that, financial knowledge and subsequent behaviour may bring the proper financial practice that employs business success for the small business (Xiang et al., 2011). 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 Aukun, 2009; Bruns and Fletcher, 2008; Mason and Harrison, 2004) whereby financial practice can be indicated as the main player of the whole phenomena. Actually, 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 of an individual's knowledge, actions and behaviour

regarding financial practices (Guiso and Minetti, 2010; Xiang et al., 2011).

For entrepreneurial knowledge and behaviour that constitute an organization's financial practice (Dietrich, 2010; Hamelin, 2011; Xiang et al., 2011; Azam and Moha Asri, 2015), the demographic profile of an entrepreneur is equally considered as a crucial factor that may lead their execution aptitude towards a specific action. Regarding this, Adeyemo (2009) stated that, skill is a quality of performance that is not only depended on individual natural ability but also must be developed through training, practice and experience. Although skill depends on learning and that learning brings more knowledge, it also includes the concepts of efficiency and economy in performance and/or success in the small business context.

On the other hand, many literatures state that, the enterprise phases do matter for having expected business success (Guzman-Cuevas et al., 2009; Levitt, 2012; Santos and Bode, 2012; Azam and Moha Asri, 2015). In fact, this trend is not different in Malaysia as well (Kamal and Flanagan, 2012). As discussed earlier, these phases are named as start-up or introductory, expansion or growth, maturity and decline stages. This is illustrated in the Figure 1 as follows.

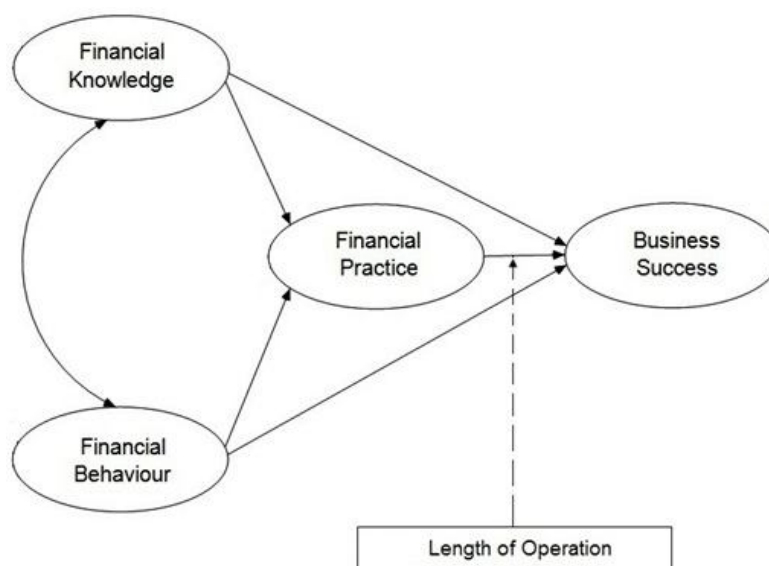


**Figure 1: Life Cycle Approach**

*Source: Levitt (2012)*

For this particular research, the cut-off duration has taken 2 years because of a few reasons. For instant, most of the cases the researchers identified that, if any small business can survive the inception or introductory stage, then the enterprise has the greater possibility to sustain until it achieves business success (Basu and Parker, 2001; Ullah and Taylor, 2007; Azam and Moha Asri, 2015). Since the first couple of years are important for the small businesses, thus '2 years' is considered as the cut-off

duration to be evaluated. Supporting this, a recent study (Minna, 2014) revealed that, the innovation capability and business success for small businesses depend upon financial and operational performance where the length of operation plays a vital role in financial practice to business success. Derived from literature support and related evidences, this concern puts a conceptual framework which is exhibited in Figure 2.



**Figure 2: Conceptual Framework**

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

H1: There is a moderating effect of enterprises' length of operation (2 years and less) on Financial Practice (FP) towards Business Success (BS).

H2: There is a moderating effect of enterprises' length of operation (more than 2 years) on Financial Practice (FP) towards Business Success (BS).

### III. RESEARCH METHOD

The survey method has been employed for this research since this 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 achieve the accuracy and relatively cost-efficient data for the research (Sekaran, 2000; Kothari, 2004; Neuman, 2007; Sekaran and Bougie, 2013).

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.

In addition, 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.

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).

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; Sekaran and Bougie, 2013). 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 fulfil 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. 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. A sample of 302 data was considered as the final sample size for the current study.

#### IV. RESULTS DISCUSSION

This section starts with demographic information of the respondents. 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 information as a whole.

**Table 1**  
**Demographic Information on the Research Participants**

Demographic Variable	Frequency	Percentage
<b>Gender</b>		
Male	178	58.9
Female	124	41.1
Total	302	100.0
<b>Age</b>		
<20	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</b>		
Malay	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

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 are 58.6 percent, 14.2 percent and 27.2 percent respectively. Table 1 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.

Beside the demographic information, the company information draws an outline of a company or enterprise, which is basically 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 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, rest of 111 enterprises (36.8 percent) are observed in the group of 'more than 5 employees' category.

After analysing the demographic and company information, the basic analysis (main model) was run via Structural Equation Modelling (SEM). In SEM, it is important to decipher whether, besides the main model, any other alternative or competing models cause of the moderating effects highlighting different speculative relationships among the latent constructs, offers better explanations of the phenomenon under study. The singular purpose is to compare these competing models derived by modifying the relationships either through segregating the groups or omission of paths (Hair *et al.*, 2010). For this, the difference in Chi Square (ChiSq or  $\chi^2$ ) test between

two competing models is used to calculate improvements over competing models; significant results for the Chi Square (ChiSq or  $\chi^2$ ) difference test indicate that the model with smaller Chi Square (ChiSq or  $\chi^2$ ) has a statistically better fit (Azam and Moha Asri, 2015). This is done, where the Chi Square (ChiSq or  $\chi^2$ ) fit statistic is compared by difference in Chi Square (ChiSq or  $\chi^2$ ) statistic such that ' $\Delta\chi^2_{(df1 - df2)} = \chi^2_{(df1)} - \chi^2_{(df2)}$ ', which is distributed as a chi-square distribution with  $df = df_1 - df_2$ ' (Mueller and Hancock, 2007, p. 501). To check the moderating effect of these, the hypotheses were placed earlier being referred.

H1: There is a moderating effect of enterprises' length of operation (2 years and less) on Financial Practice (FP) towards Business Success (BS).

H2: There is a moderating effect of enterprises' length of operation (more than 2 years) on Financial Practice (FP) towards Business Success (BS).

These hypotheses, have been principally examined by the following Figure 3 (a) and Figure 3 (b), which expose the unique response of the two groups of respondents in terms of their length of operation in the Small businesses in Malaysia, such as '2 years and less' and 'more than 2 years'.

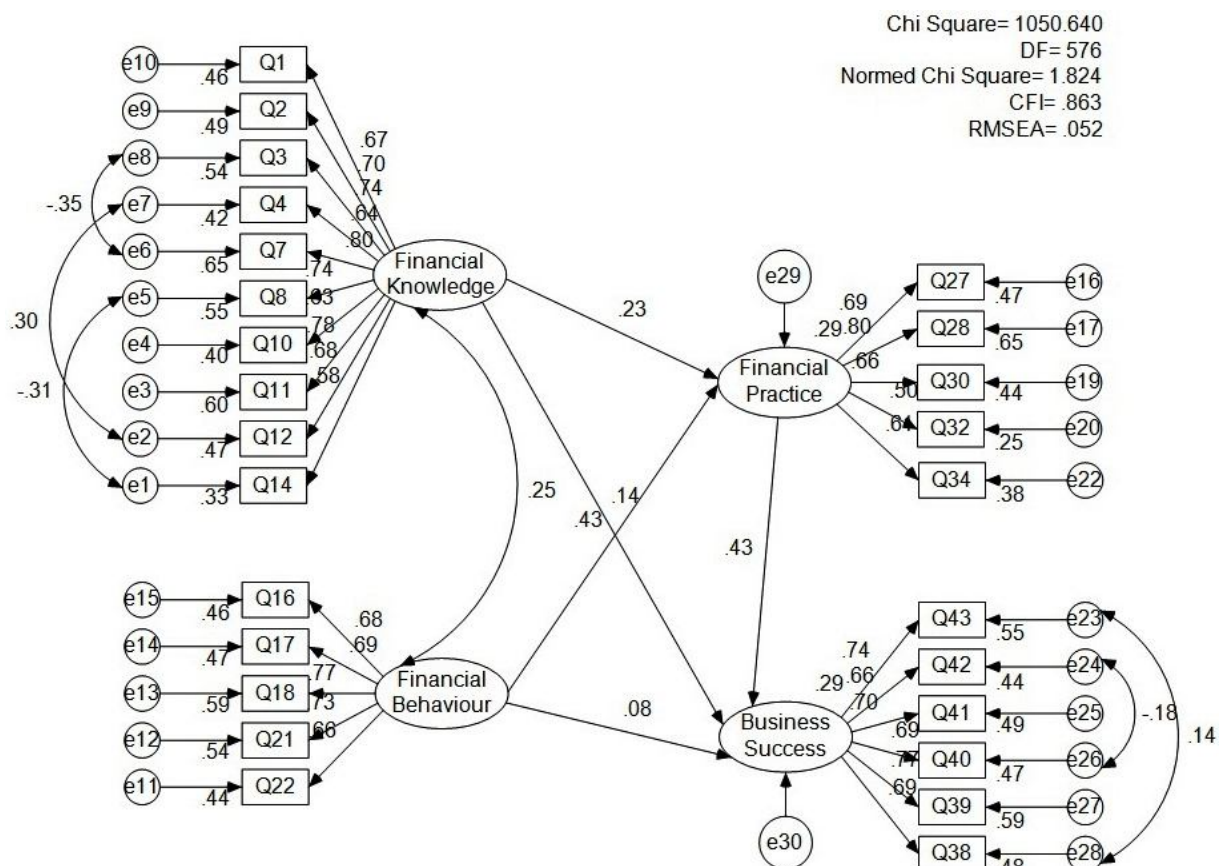
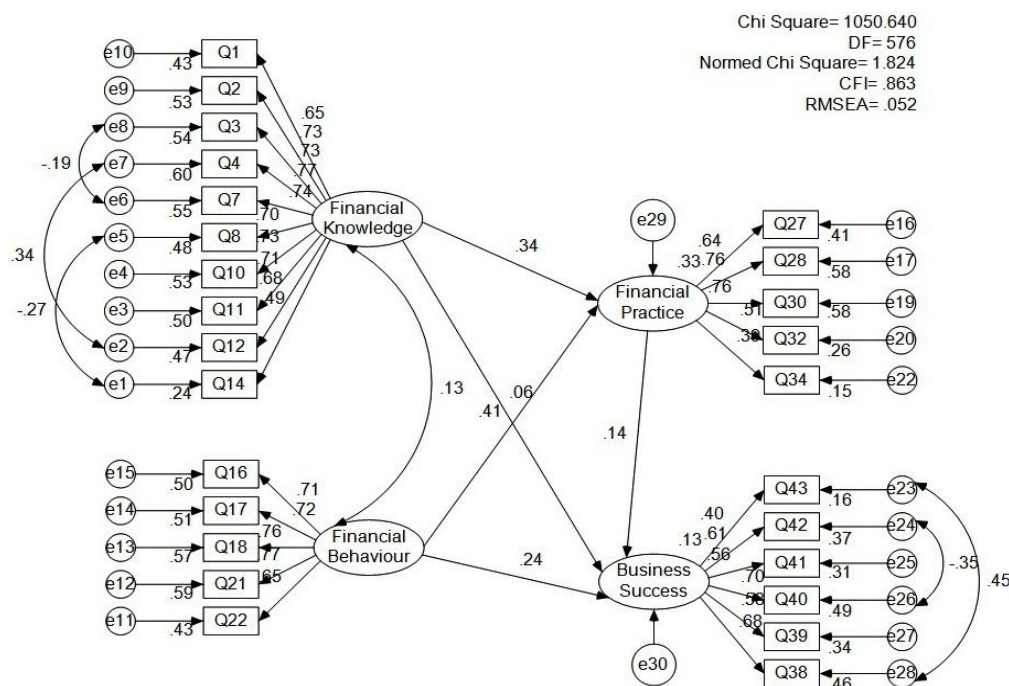


Figure 3 (a): Unique Response of '2 Years and Less' on the Hypothesized Model

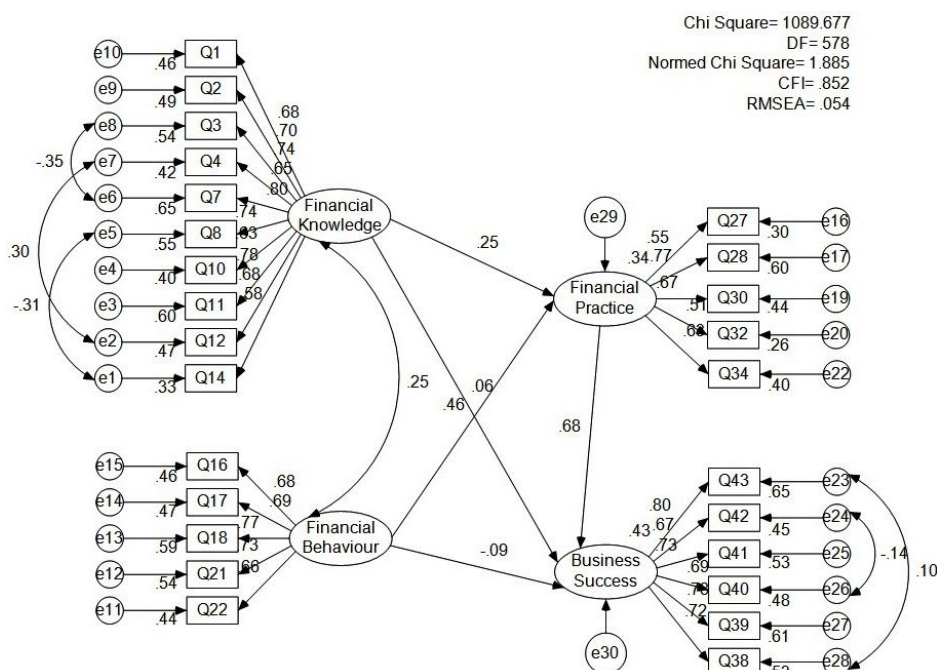




**Figure 3 (b): Unique Response of 'More than 2 Years' on the Hypothesized Model**

As both of these Figure 3 (a) and Figure 3 (b) show the same Chi Square (ChiSq or  $\chi^2$ ), Degrees of Freedom (df), Normed Chi Square (ChiSq/df), CFI and RMSEA values, therefore, no obvious signal of having a moderating effect is understood. Consequently, the invariance analysis needs to be run as suggested by Zainudin (2012), where both of the constrained and unconstrained models are observed to check if the change of Chi Square ( $\Delta\text{ChiSq}$  or  $\Delta\chi^2$ ) and the Degrees of Freedom (df) are significant between these two groups. According to Zainudin (2012), if the Chi Square (ChiSq or  $\chi^2$ ) value differs

between constrained and unconstrained models by more than 3.84 for 1 Degrees of Freedom (df), then the moderation occurs in that particular path. In this particular study, nevertheless, a parameter constraint is placed on the selected path (Financial Practice→Business Success) to be equal to 1 as recommended by Zainudin (2012). As a result, the Figure 4 (a) and Figure 4 (b) show the output for the constrained model and unconstrained model respectively for the length of operation of the enterprise for '2 years and less'.



**Figure 4 (a): Output of the Constrained Model for '2 Years and Less'**

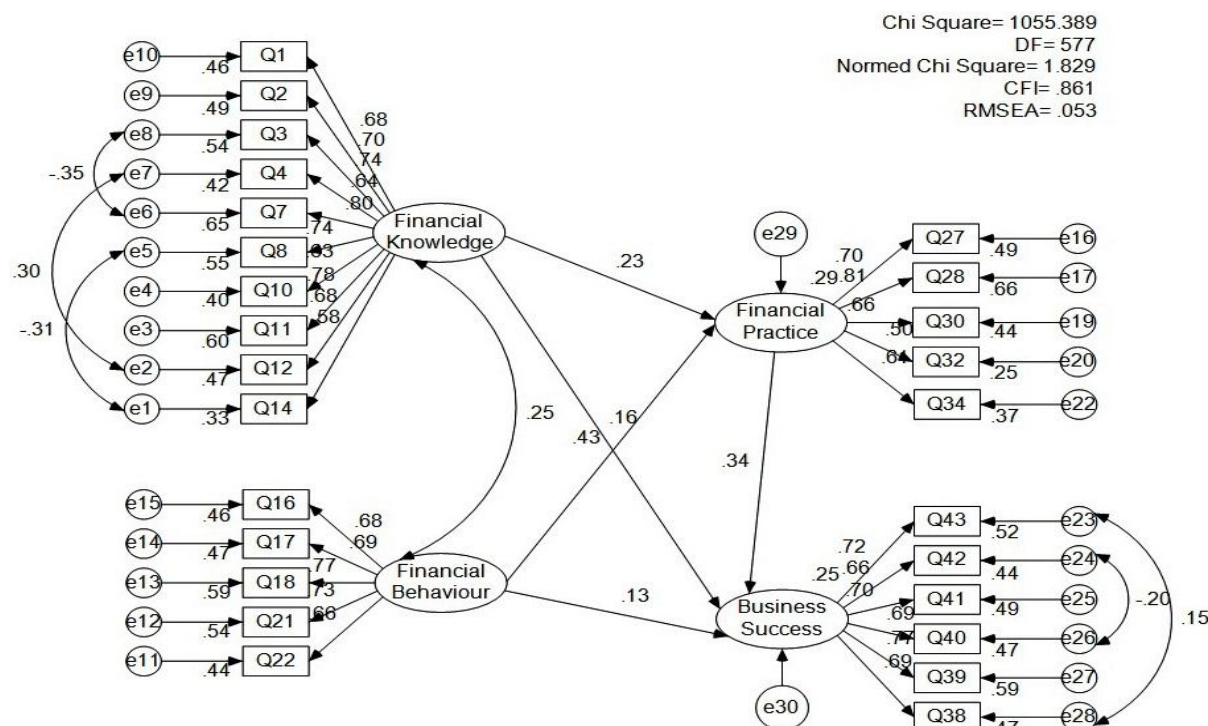


Figure 4 (b): Output of the Unconstrained Model for '2 Years and Less'

The constrained model and unconstrained model shown in Figure 4 (a) and Figure 4 (b), have been observed that the different Chi Square (ChiSq or  $\chi^2$ ), Degrees of Freedom (df), Normed Chi Square (ChiSq/df), CFI and RMSEA values are noticed. As a rule of thumb set by Zainudin (2012), the moderation should be realized in a particular path if the Chi

Square (ChiSq or  $\chi^2$ ) value changes above than 3.84 for 1 Degrees of Freedom (df) from the constrained model to the unconstrained model. However, following Table 3 shows the moderation test for the length of operation of the enterprise for '2 years and less'.

Table 3  
Moderation Test for the Length of Operation of the Enterprise for '2 Years and Less'

	Constrained Model	Unconstrained Model	Chi Square Difference ( $\Delta\chi^2$ ) [ $\chi^2_{(df1)} - \chi^2_{(df2)}$ ]	Result on Moderation	Result on Hypothesis
Chi Square (ChiSq or $\chi^2$ )	1089.677	1055.389	34.288	Significant	Supported
Degrees of Freedom (df)	578	577	1		
Normed Chi Square (ChiSq/df)	1.885	1.829			
CFI	0.852	0.861			
RMSEA	0.054	0.053			
The Hypothesis Statement: H1: There is a moderating effect of enterprises' length of operation (2 years and less) on Financial Practice (FP) towards Business Success (BS).					Supported

Source: Author's Computation

Table 3 specifies that the moderation test is significant since the difference in Chi Square ( $\Delta\chi^2$ ) value between the constrained and unconstrained model is greater than 3.84. Actually, the difference in Chi-Square (ChiSq) value is 34.288 (1089.677 – 1055.389), while the difference in Degrees of Freedom is 578 – 577 = 1. Hence, the hypothesized statement is supported. This phenomenon can be defined through the statements of Guzman-Cuevas et al. (2009) and Santos and Bode (2012), where they mentioned that the experience does matter. They defined the experience as one of the demographic

features for the enterprise. However, Kamal and Flanagan (2012) also slightly focused this issue on Malaysian perspective.

Alternatively, the unconstrained model for the length of operation of the enterprise for 'more than 2 years' has been plotted in Figure 5 (a) and Figure 5 (b), the length of operation of the enterprise for 'more than 2 years' constrained model and unconstrained model require to be tested afterwards because no clear sign of moderation was noted in the Figure 3 (a) and Figure 3 (b), considering that the Chi Square (ChiSq or  $\chi^2$ ), Degrees of Freedom (df), Normed Chi Square

(ChiSq/df), CFI and RMSEA values were same between the groups. As like the previous one, it requires for a further progress to the next stage of invariance analysis (Zainudin, 2012), addressing the both constrained and unconstrained models to observe whether the change of Chi Square (ChiSq or  $\chi^2$ ) and the Degrees of Freedom (df) is significant. For that reason, a parameter constraint is put on the

selected path (Financial Practice→Business Success) in the same way done before, where the parameter was fixed equal to 1 as suggested by Zainudin (2012). However, the Figure 5 (a) and Figure 5 (b) present the output for the constrained model and an unconstrained model for the length of operation of the enterprise for 'more than 2 years' correspondingly.

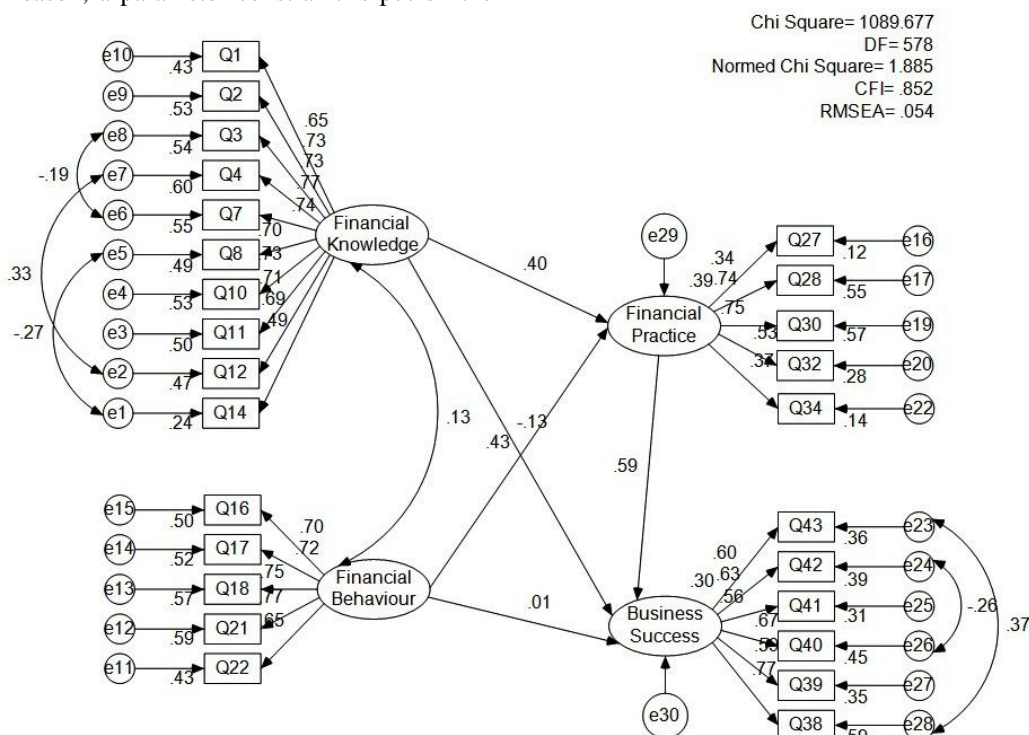


Figure 5 (a): Output of the Constrained Model for 'More than 2 Years'

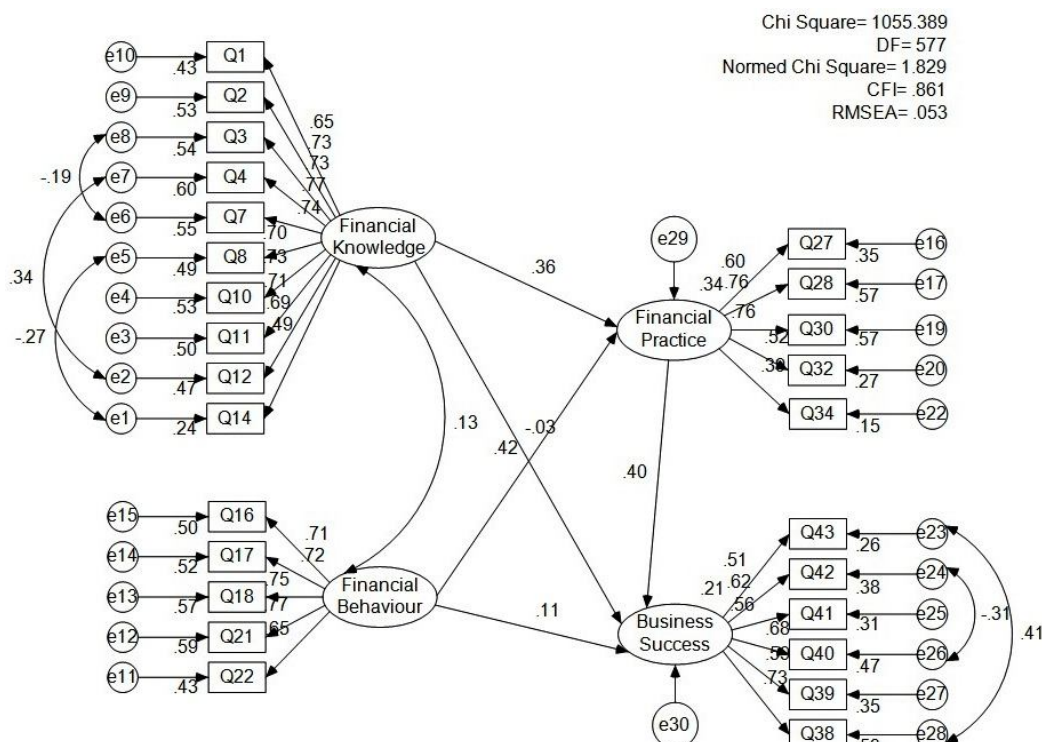


Figure 5 (b): Output of the Unconstrained Model for 'More than 2 Years'



Much the same as previous investigation focused the length of operation of the enterprise for '2 years and less', this step (more than 2 years) of constrained model and unconstrained model also shows the different values for the Chi Square (ChiSq or  $\chi^2$ ), Degrees of Freedom (df), Normed Chi Square

(ChiSq/df), CFI and RMSEA as shown in Figure 5 (a) and Figure 5 (b). The following Table 4 shows the moderation test for the enterprise for '2 years and less' group data.

**Table 4**  
**Moderation Test for the Length of Operation of the Enterprise for 'More than 2 Years'**

	Constrained Model	Unconstrained Model	Chi Square Difference ( $\Delta\chi^2$ ) [ $\chi^2_{(df1)} - \chi^2_{(df2)}$ ]	Result on Moderation	Result on Hypothesis
Chi Square (ChiSq or $\chi^2$ )	1089.677	1055.389	34.288	Significant	Supported
Degrees of Freedom (df)	578	577	1		
Normed Chi Square (ChiSq/df)	1.885	1.829			
CFI	0.852	0.861			
RMSEA	0.054	0.053			
The Hypothesis Statement: H2: There is a moderating effect of enterprises' length of operation (more than 2 years) on Financial Practice (FP) towards Business Success (BS).					Supported

Source: Author's Computation

Although Table 3 and Table 4 exhibit the associated results as well as given four figures such as Figure 4 (a), Figure 4 (b), Figure 5 (a) and Figure 5 (b) look like similar, nevertheless, these all are unique since their path coefficients are different. From those path coefficients, actually the influences of the constructs can understand respectively. However, detecting the values from Table 4 above, it can be supposed that the moderation test is significant since the difference in Chi Square ( $\Delta\chi^2$ ) value between the constrained and unconstrained model is greater than 3.84 (Zainudin, 2012). Particularly, the difference in Chi-Square (ChiSq) value is 34.288 (1089.677 – 1055.389), while the difference in Degrees of Freedom is 578 – 577 = 1. Therefore, the hypothesized statement is supported. However, the recent work conducted by Darcy *et al.* (2014) also focused on the consideration of organisational sustainability in the small business context. They pointed out on the duration of the enterprise as a sustainable tool as well as the key to business success.

Moreover, the issue concerning the length of operation can be linked with the lifecycle approach of an enterprise, which has described earlier. Lifecycle approach is actually a considerable theory for illustrating the succession and development of an enterprise through various growth phases (Hill, 2007). In this particular study, the moderation occurs on the way from financial practice to business success where the length of operation is found as a moderating factor. Thus, the Life Cycle Approach (LCA) or this specific theory sheds light on Malaysian small business. Usually, an enterprise is assumed in an introduction stage during the first two years of operation since this is the primary stage for small businesses. Vitally, the product is introduced in the market at this stage in a determined and strong initial effort to establish a clear identity. As it has

been observed during casual discussions with the respondents, many experimental and trial purchases take place at this stage. For the financial perspective, this stage is basically depends on owners' personal resources, family and friends' financing. On the other hand, when the business gets sustained after a while like two years or more, it recognized by the number of sales that is increasing and the emergence of competitors in the industry. Same goes to the service industry, the expected number of services providing is met somehow, and enterprises may expect for a repeat purchasing in this stage. Hence, the moderating effect of enterprises' length of operation has the rationales in Malaysian small businesses.

## V. DISCUSSION AND CONCLUSIONS

This study attempts to assess the moderating effect to test whether enterprise early phase plays different roles in financial practice towards business success in Malaysian small business. In fact, the early phase is specified via length of operation of an enterprise. To accomplish the research objective, thus, the current study performs structural invariance to test the presence of any moderating effects of length of operation ('2 years and less' and 'more than 2 years') in the Malaysian small business. The moderating effect of enterprises' 'Length of Operation' on Financial Practice (FP) towards Business Success (BS) was identified through invariance analysis. More specifically, it has been found that the moderating effect does exist in Malaysian small business. Apparently, this is supported by the precedent literature. Few academic authors, such as Guzman-Cuevas *et al.* (2009) and Santos and Bode (2012) mentioned about the enterprise early phase, which does matter for an enterprise to get succeed. Kamal and Flanagan (2012) also pointed out on the early phase, especially on Malaysian perspective. In

fact, the succession and development of an enterprise can be viewed from the different growth phases (Hill, 2007). This can be linked with the findings from this research. Typically, an enterprise is understood as an infant during the first several years of its operation. With the same tune of the current findings, the recent literature (Minna, 2014) also revealed that, the innovation capability and business success for small business depend upon financial and operational performance where the duration and/or the length of operation play an important role in financial practice to business success. Therefore, this study significantly contributed in the methodological development in the Malaysian small business, which will definitely 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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