THE ROLE OF KNOWLEDGE TRANSFER IN DETERMINING DEBT LITERACY TOWARD MICRO ENTERPRISES' ABILITY TO REPAY DEBT IN MALAYSIA

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Abstract*: Knowledge transfer is considered crucial to a firm's growth and transformation. In contrast, micro enterprises play a crucial role in the socio-economic development in a country through business possibilities, job creation, and poverty reduction. However, various factors influence the ability of micro enterprises to repay their debt. One of the most important components of enhancing the capacity of micro enterprises' to repay debt is literacy and the transfer of knowledge. To bridge this gap, this study examined the elements that affect the capacity of Malaysian micro enterprises to repay their debt, including debt literature, by utilising knowledge transfer as a medium. The main data from the study were collected through questionnaires from 127 Malaysian micro enterprises. The PLS-SEM approach was used to evaluate the data and subsequently to solve hypotheses and achieve the research goals. This article comprises some recommendations on the development of the micro enterprises sector in Malaysia and for relevant future research in this field.*

Keywords*: Debt literacy, Knowledge transfer, Ability to repay debt, PLS*
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Introduction

The economic consequences of the unprecedented Covid-19 outbreak and the adoption of the Movement Control Order (MCO) undoubtedly had an effect on the performance of micro enterprises in 2020. Bank Negara Malaysia (BNM) lowered Malaysia's 2020 GDP growth forecast downward to between -2.0 percent and 0.5 percent. According to a poll done by Small Medium Enterprises Corporation Malaysia (SME Corp. Malaysia), around 73 percent of SME including micro enterprises were predicted to lose money in 2020 (SME Corp Malaysia, 2020). According to the Statistics Department, the contribution of Malaysia's small and medium-sized companies micro enterprises to the gross domestic product (GDP) declined by 7.3 percent in 2020. Micro enterprises GDP contribution fell to 38.2 percent in 2020, with value addition of

RM512.8 billion, down from 38.9 percent or RM553.5 billion the previous year. The nationwide movement control order (MCO) imposed to contain the pandemic caused a fall in all of Malaysia's economic sectors.

Compared to commercial banks, the problem of non-performing loans and defaulting loans in micro enterprises is substantially greater. In the event of micro enterprises having borrowed from too many debtors, this will influence the balance sheet and affect operations in terms of cash, reduced credit capacity, financial returns, and the ability to obtain more money (Twesige et al., 2021).

Literature Review
In 2014, the definition of SME was modified. The latest change to the micro enterprises category came into force on 1 January 2014. The definition divides manufacturing and services into two divisions as well as other sectors. Production sales should not exceed RM50 million and full-time personnel should not exceed 200 million. A minimum revenue of RM20 million or no more than 75 full-time employees is necessary for services and other sectors (Mustafa & Yaakub, 2018). Based on SME Corp. Malaysia (2020), micro enterprises are firms that have a sales turnover of less than RM300, 000 and employees less than 5.

According to the findings of the study, more sophisticated borrowers, as measured by their credit scores and income, are more likely to have non-repayment (i.e., complex) mortgages and are also more likely to default on these mortgage loans, possibly for strategic reasons, than less sophisticated borrowers. It is true that defaulting could be advantageous for homeowners who have negative equity and a non-recourse loan, which means they are not accountable for any deficiency in the event of a foreclosure (van Ooijen & van Rooij, 2016).

The borrowers' loan payback performance is an indicator of the effectiveness of micro enterprises. Both micro enterprises and borrowers gain from high loan repayment rates. It further argues that high reimbursement rates reflect the suitability of the services provided by micro enterprises to customers' needs. A high repayment rate helps get the next bigger loan amount (Melese & Asfaw, 2019).

In contrast, if the reimbursement rate is poor, it will damage both the borrower and micro enterprises. In this instance, the borrowers cannot receive the next larger loan and the borrower loses its customer. Default rates are the number of loans that have not been collected for the present and past term of the loan. Loans by credit institutions vary between countries, regions, and sectors (Melese & Asfaw, 2019).

Financing is required to assist small and medium-sized businesses to establish themselves, expand, and develop new goods. According to the OECD (2006), the appropriate funding source remains a barrier to the growth of innovative micro enterprises, known as the "micro enterprises funding gap". A substantial proportion of micro enterprises is unable to receive funding from the official financial sector because of the absence of track records and collateral to increase loan funding (Mushipe, 2017).

According to Mushipe (2017), closing the "funding gap" is critical in a knowledge-based economy where innovative micro enterprises with high growth potential are critical for increasing productivity and sustaining competitiveness. Companies with more unpredictable cash flows should employ less debt since the estimated cost of financial distress is higher.

Daniel (2021) also discovered that defaults on loans inside micro enterprises are attributed to inadequate client assessment, collateral assessment, and customer loan history. He said that credit defaults are due to a lack of identification of credit risk and enterprises paying enormous amounts of tax.

Methodology

Specifically, closed-ended questionnaires were presented to respondents who were micro enterprises owners, and the core data for this study was gathered from them.

Also included in this research are Bank Negara Malaysia's annual report and significant figures from the Bank's monthly report, which are also considered as secondary data.

This study used a simple random sampling method to equally include every micro enterprises business in service sector owner in the sample. The unit analysis for this study is the owner of micro enterprises in Malaysia. There are 903, 174 micro enterprises service subsector institution establishments in Malaysia (SME Corp. Malaysia, 2020).

In this study, quantitative methods were used and the scope was limited to micro enterprises that are registered with SME Corp. Malaysia. As this study is primarily concerned with micro enterprises, the definition of micro enterprises from the SME Corp. Malaysia (2014), was used to select appropriate businesses for participation in the research. Based on SME Corp (2020), micro enterprises are firms that have a sales turnover of less than RM300, 000 and employees less than 5.

For the purpose of evaluating the links between entrepreneurial competency components and inventive performance, items from prior research that are reliable and validated were adapted and used to create a survey instrument that is reliable and validated.

As many micro enterprises entrepreneurs in Malaysia are able to respond comfortably in the Malay language, the survey instrument was also translated into Malay language. The respondents pre-tested the translated questionnaire to make sure that the questions were the same in the English and Malay versions.

Data were gathered via Google Form Surveys, which disseminated questionnaires to 384 enterprises in all the states of Malaysia, based on the Cohen Table. The respondents were business owners of micro enterprises. A total of 127 responses were received. For this investigation, only a sample size of N=127 was used, which resulted in a response rate of 33.07 percent. This response rate is regarded as satisfactory because in Malaysia it is customary to have between 15 and 20 percent of the standard response rate of micro enterprises (Rozhan Othman, 2000).

Theoretical framework

The instrument for this study is adapted from Sabana (2014), in which the independent variable is debt literacy and the dependent variable is the ability to repay the debt that has been used to examine the relationship between variables with the role of knowledge transfer as a mediator variable.

Debt literacy relates to individuals' involvement, behavior, and performance in financial markets, even though the causal direction is debatable. On the other hand, debt literacy, which

is a fundamental element of loan decision-making, in particular mortgage lending, prevents people from learning from past experiences (Cwynar & Wais, 2019).

The increase in knowledge has strengthened the trust of economic entities. This expertise will assist small and medium-sized enterprises to explore all the advantages of financial institutions and develop healthy micro enterprises. Effective transmission of information has a favorable effect on organizational innovation and performance (Abas & Jali, 2015).

Therefore, this study expects the following hypotheses:

H1: There is a significant positive relationship between debt literacy and micro enterprises ability to repay debt.

H2: There is a significant positive relationship between debt literacy and knowledge transfer.

H3: Knowledge transfer has a significant mediating role in micro enterprises ability to repay debt.

Sample

This study examined micro enterprises firms in the services industry in Malaysia. According to the findings of the study, 63% of those surveyed were female, while 37% were male. This shows that more females than males were in the sample.

Most of the respondents reported their ages as varied between 18 and 30 years, followed by 29.9% with ages ranged between 31 and 40 years, 26% between the ages of 41 and 50 years, and just a handful beyond 61 years (7.9%), while 5.5% said that their ages were from 51 to 60 years.

According to the statistics, the majority of micro enterprises players were fairly young. The data also showed that the respondents were from a reasonable background with 46.5% of them with a bachelor's degree, 29.3% with a college degree, and 13.4% with a college certificate. Besides that, 7.3% of the respondents were Master's degree holders, while 3.9% with a Ph.D. The level of education has been acknowledged as an important component in helping companies to survive and manage difficult situations and boosting profitability (Yusuf, 1995). The ethnic composition findings of the entrepreneurs suggested that 96.9% of small and medium-sized companies are led by Malay ethnic groups, with only 3.1% from other ethnic groups.

The data shows that 44.9% of enterprises participated in the food and beverage market and that 28.3% delivered other services. Meanwhile, wholesale and finance and insurance accounted for 11% and 8.7%, respectively. The smallest contribution from small and medium-sized firms in this study is government services and information and communication, which show 2.4% and 4.7%, respectively.

A total of 70.1% of the respondents had fewer than five employees, while 29.9% had between 5 to 10 employees. None of them have between 11 and 35 employees.

From the top responses, 44.9 % were entrepreneurs who worked between one and five years and 23.6% were those who worked between six and 10 years. About 27.6% were those who operated for 11 to 15 years.

Based on the sample, 80.3% of small medium-sized firms earn less than RM300, 000 a year, while only 19.7% earn RM300, 000 to RM3 million annually in sales or revenues.

A total of 56.7% of the micro enterprises are sole proprietors, and 24.4% and 18.9% are partnerships and business kinds, respectively.

Data reveals that 59.8% of the respondents attended additional courses or financial education or program disciplines and 40.2% did not attend additional courses or financial education or program disciplines. This shows that most entrepreneurs have the financial understanding to run their businesses.

Findings and Discussion

Ringle's PLS-SEM was used to test the model. Step one was to evaluate convergent validity (Ringle at al., 2020). Hair et al., (2019) proposed applying factor loadings, composite reliability, and average variance to verify convergent validity. Hair et al., (2019) indicated that an external load of 0.7 is appropriate. Nevertheless, Hair et al., (2019) suggested that social scientists examine the impact of deleting indicators from 0.40 to 0.70 on AVE and composite dependability. If removing the external load does not raise the measurement above the threshold, then keep the reflected indicator. Outside load indications below 0.40 should always be removed (Hair et al., 2019). (Table 1 shows that after deleting numerous items, the loading was over 0.7 (Hair et al., 2019). Compositional dependability ranged from 0.738 to 0.972, exceeding the required 0.7 (Hair et al., 2019). The average variance extracted (AVE) for the latent construct indicators were 0.671 and 0.918, above the required 0.5. (Hair et al., 2019).

Table 1: Result of the measurement model (Outer loading)

Constructs	Items	Loading	AVE	CR	Deleted due to low loading
Debt Literacy	A3	0.880	0.738	0.879	A1
	A4	0.909			A2
	A5	0.909			A6
	A9	0.726			A7
					A8
					A10
					A11
					A12
					A13
					A14
					A15
Knowledge transfer	B1	0.723	0.677	0.947	
	B2	0.873			
	B3	0.862			
	B4	0.874			
	B5	0.888			
	B6	0.794			
	B7	0.813			
	B8	0.854			
	B9	0.744			
	B10	0.783			

Constructs	Items	Loading	AVE	CR	Deleted due to low loading
	C3	0.797	0.671	0.969	C1
	C4	0.710			C2
	C5	0.847			C6
	C7	0.790			C9
Ability to repay debt	C8	0.736			C16
	C10	0.886			C17
	C11	0.770			
	C12	0.860			
	C13	0.897			
	C14	0.780			
	C15	0.786			
	C18	0.879			
	C19	0.911			
	C20	0.838			
	C21	0.769			
	C22	0.816			
	C23	0.825			

Note: Loadings > 0.7, AVE>0.5, CR>0.7.

Discriminant Validity of Construct

The next step was to test the construct's discriminant validity against other constructs (Hair et al., 2019). The initial cross-loadings of the items should be higher than the other constructs for discriminant validity. Table 2 reveals that all constructs in this study have adequate discriminant validity. All extracted square roots of average variance were larger than the row and column correlations in Table 2, showing appropriate discriminant validity. Overall, the measuring model had good convergent and discriminant validity.

Cross loading value

Cross-loading is an alternative to AVE and can be used to assess the reflection model's effectiveness. At the very least, no indicator variable should be more correlated with another latent variable than it is with its own latent variable. If this is the case, the model has been specified incorrectly (Garson, 2016).

Table 2: Cross loading value

	Ability to repay debt	Debt literacy	Knowledge transfer
Ability to repay debt	0.819		
Debt literacy	0.599	0.859	
Knowledge transfer	0.836	0.578	0.823

Note: Diagonals represent the square roots of the AVE while the off diagonal represents the correlations.

Table 3: Fornell-Larcker Criterion & HTMT

Variables	Average Variance Extracted (AVE)	Fornell Larcker Criterion	HTMT
Ability to repay debt	0.671	0.819	
Debt literacy	0.738	0.859	0.637
Knowledge transfer	0.677	0.823	0.847

According to Table 3, all variables are distinct from one another since their Fornell-Larcker values exceed the AVE value.

According to Fornell-Larcker, a factor's AVE should be greater than its squared correlation with all other factors in the model. HTMT is a method for estimating factor correlation (more to be precise, it is an upper limit). To make a clear distinction between the two variables, HTMT should be much smaller than 1. Cross-loading should be assessed to ensure that indicators are not assigned improperly to the inappropriate factors (Benitez at al., 2020).

A structural model evaluation was undertaken to test the hypotheses. The bootstrapping approach was used to test the hypotheses. H1, H2 and H3 are supported, as seen in Table 4. Debt literacy and knowledge transfer are favourably associated with the ability of small businesses to repay debt. As illustrated in Figure 1, the R2 value for the ability to repay debt is 0.720, implying that debt literacy accounts for 72.0 percent of the variance in the dependent variable.

Table 4: Hypothesis Testing

Hypotheses	Relationships	Std Beta	Std Error	t-value	p-value	Decisions
H1	Debt Literacy -> Ability to repay debt	0.174	0.169	3.407	0.001	Supported
H2	Debt Literacy -> Knowledge Transfer	0.578	0.584	9.189	0.000	Supported
H3	Knowledge Transfer -> Ability to repay debt	0.736	0.742	17.364	0.000	Supported

Note: *t-value < 1.96, p-value<0.05. Hypotheses are supported.

Figure 1: Structural Model

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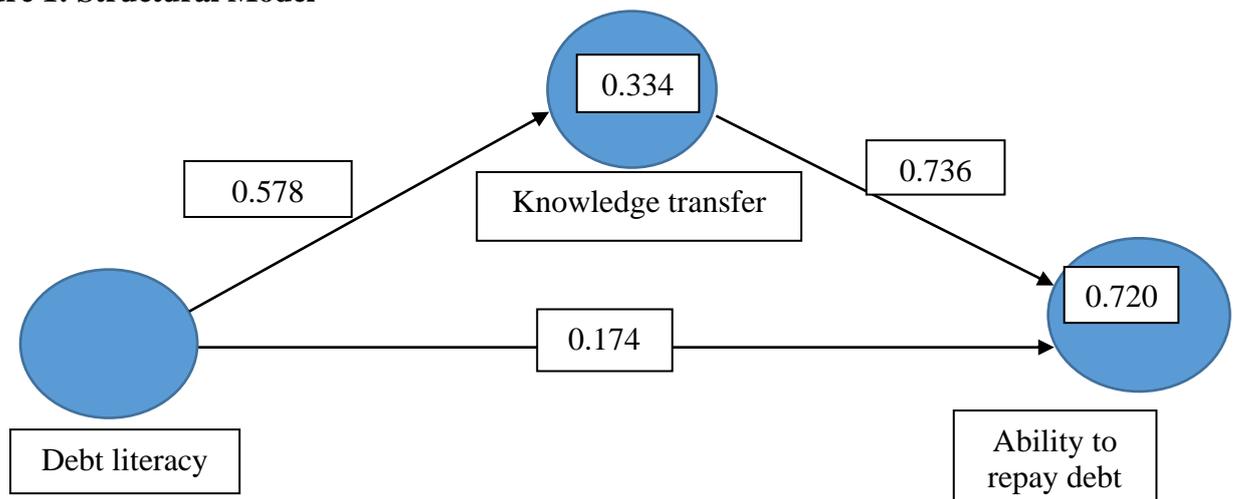
Debt literacy is positively related to micro enterprises ability to repay debt with a beta value of 0.174, t-value of 3.407, and p-value 0.001, where p-value<0.05 significance level. Similarly, debt literacy is positively significant to knowledge transfer with a beta value of 0.578, t-value of 9.189, and p-value 0.000, which is < 0.05. Additionally, knowledge transfer is positively significant to micro enterprises ability to repay debt with a beta value of 0.736, t-value of 17.364, and p-value 0.000, where p-value < 0.05.

Conclusion

The purpose of this study is to investigate the relationship between debt literacy and the role of knowledge transfer in impacting the ability of a micro enterprises to repay its debt in Malaysia. This study contributes to the availability of knowledge transfer information in a number of different ways, as described below. First, this research contributes to the body of knowledge by investigating debt literacy and knowledge transfer among micro enterprises, in addition to the latter's ability to repay their debt. Second, due to their knowledge, awareness, practices, management, and capability, micro enterprises in Malaysia must be recognized by government agencies as having entrepreneurial capabilities, which is particularly significant for the government. In this study on Malaysian micro enterprises, the findings reveal that debt literacy and knowledge transfer, as well as the ability of the businesses to repay their debts, are all significantly impacted.

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