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ROLE OF KNOWLEDGE, FINANCIAL CAPITAL AND BUSINESS PERFORMANCE IN FOODSERVICE SECTOR

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ABSTRACT

This research aims to investigate the relationship between knowledge, financial capital and business performance in the foodservice sector. A total of 336 entrepreneurs from Kota Kinabalu, Sabah have participated in the study. The data were analysed using Partial Least Square (PLS) technique version 2.0. The results have shown that knowledge and financial capital are positively related to business performance among entrepreneurs'. This research might give some views among entrepreneurs' to improve their business performance. The findings of the research may extend existing knowledge in the business performance discipline as well as to impart valuable information to policymaker in strengthening and assists suitable support to entrepreneurs' to sustain in the marketplace. Therefore, knowledge and financial capital are important indicators to predict business performance among entrepreneurs.

Keywords: business performance, knowledge, financial capital

INTRODUCTION

The foodservice sector significantly played an important role in the development of the economics of many nations. The foodservice sector in Sabah is growing because of the tourism destination. Sabah is well

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known as “Land below the wind” serves the gigantic mount Kinabalu, rich of biodiversity, beautiful islands and multiracial community which estimate of 42 ethnic groups. In the West Coast of Sabah context, bachelors, couples or parents mostly are working people who had to deal with hectic life to earn income for the household. This due to the cost of living is very high that different, where normally only men responsible to seek for money. Moreover, the poor condition of the road creates bad congestion that gives some fatigue to working people. Consequently, working people who are exhausted, late to reach their home as a result, they do not have enough time to cook their meal either for their family or for themselves. Due to this situation, working people decided to decide to eat outside either to get breakfast, lunch or dinner. Thus, many of the working people are rarely cooking at home. Some of the working people believe that eating outside is a lifestyle. Thus, eating outside in the urban area is not a new phenomenon in Malaysia but is the changing of lifestyles (Ali & Abdullah, 2012). Furthermore, the foodservice sector gives alternative in serving breakfast, lunch or dinner. In West Coast Sabah, a lot of small stalls, restaurant or café is growing to capture the situation where the food service is located near towns, city and along the road near to the residential area. In this study, our interest is to investigate the challenges faced by the entrepreneurs who owned and run the restaurant in the West Coast of Sabah. What makes entrepreneurs still in the marketplace? Thus, two factors as the indicator such as knowledge and financial capital to predict the business performance.

Thornhill (2006, p. 692) points out that “knowledge, as an asset, can possess the properties of value, rarity, inimitability, and organizational engagement”. Also, knowledge is an important asset in an individual’s life. Through knowledge, one can discover many aspects of his or her life. An individual can gain knowledge from formal education like schooling, workshop and training. While informal way to gain knowledge is obtained through life experience either industry experience or working experience. Moreover, an individual not only learns from his or her experience but also can learn from other people’s experience (Wang & Wang, 2012). Nonetheless, the resource-based view is undeniable about the role of knowledge in creating competitive advantage (Thornhill, 2006). The knowledge is the characteristics of human capital theory. The knowledge increases the individual cognitive abilities, leading to more productive and efficient potential activity (Schultz, 1959; Becker, 1964; Mincer, 1974). This perhaps led such an interest among many scholars to figure out the relationship between knowledge and business performance (Davidsson & Honig, 2003; Thornhill, 2006; Wang & Wang, 2012). According to Teixeira (2012), a study on the relationship between human capital of entrepreneurs and the survival of the small firm is scarce. Moreover, the contributions of human capital in the foodservice sector in Sabah still not clear.

Notwithstanding the importance of human capital such as knowledge, most entrepreneurs in many sectors facing the financial capital issue that may influence their business performance. For example, at the introduction stage and growth of the business, entrepreneurs need some amount of money and other resources to operate the business. As argued by Zhou and Chen (2008), they identify that entrepreneur’s need financial capital to obtain physical resources to take advantage of business opportunities. Some studies focus on financial capital and

business performance (Fatoki, 2011; Okafor, 2012). Therefore, our study contributes to the existing literature that aims to examine the effect of knowledge and financial capital on business performance. In our study, there are two specific research questions as below:

(i) Does knowledge significantly lead to business performance in the foodservice sector?
(ii) Does financial capital significantly lead to business performance in the foodservice sector?

Therefore, further discussion on the following parts such as literature review, research methodology, result, discussion and conclusion.

LITERATURE REVIEW

In general, business performance may be influenced by internal and external factors. Business performance can be measured from the financial and non-financial aspects. Many previous studies investigate the factors contributing to business performance (Cooper, Gimeno-Gascon, & Woo, 1994; Storey, 1994; Chandler & Hanks, 1998; Davidsson & Honiq, 2003). In the studies, two indicators such as knowledge and financial capital that influence business performance are further discussed.

Coleman (1988) refers to human capital as skills, knowledge and abilities of individuals that influence them to think and act in a novel way. As elucidate by Bontis (1998), human capital as the firm's collection capability to extract the best solutions from the knowledge of its individuals. The important characteristics of human capital are education, experience, knowledge, genetic inheritances and attitude about life and business (Hudson, 1993; Writh, Smart, & McMahan, 1995). Furthermore, human capital divided into four dimensions, namely knowledge, experience, professional proficiency and cognitive ability (Felı´cio, Couto & Caiado, 2014). What is knowledge? Knowledge refers as, ''shared space for emerging relationships that can be either a physical space, virtual, mental or any combination of the above'' (Nonaka & Konno, 1998). Teece (2007) and Smith (2001) have pointed out that knowledge constitutes valuable intangible assets, solve problems and achieve goals for creating and sustaining competitive advantages. According to Grant (1996), knowledge embedded within people is sooner or later the only source of competitive advantage. Additionally, Stewart (1997) states that the knowledge assets, like money or equipment, exist and are worth cultivating only in the context of the strategy used to apply them. For example, a case study conducted in Kota Kinabalu, Sabah by Nasip and Sulong (2015) revealed that entrepreneurs who embark in the restaurant business are willing to learn to improve their knowledge in culinary through formal and non-formal education. Therefore, entrepreneurs can stay in the marketplace by bringing innovativeness. Moreover, human capital provided by entrepreneurs' abilities is a vital contributor to the success of the business (Cooper et al., 1994). As further argued by Senaji and Nyaboga (2011), knowledge is precious and a distinctive resource, which bestows a basis for a firm's competitive advantage. Omerzel and Antoncic (2008) found that there is a positive influence between entrepreneurial knowledge on profitability and business

performance among 168 entrepreneurs in Slovenia. Another study conducted among 390 managerial staff in Malaysia by Samad (2013) found that knowledge is positively correlated with business performance. This led to the following hypothesis:

H1: *Knowledge has a positive influence on business performance.*

Next is the financial capital that being a crucial issue for the firm regardless of the firm size. According to Okafor (2012, p. 214), financial capital refers to the ability of a firm to secure external capital and it takes the form of equity and or debt capital infusions into a business. Also, financial capital means equipment and intangible assets (Klise, 1972). For example, initial equity comes from several sources, such as savings, mortgages on homes and personal property, partners, family, friends and relatives, and external investors and also the debt usually comes from the lending institutions (Klise, 1972; Van Auken & Carter, 1989; Chittenden, Hall, & Hutchinson, 1996; Abouzeedan, 2003; He & Baker, 2007). Furthermore, a firm who has higher startup capital be able to hire more workers, have a chance to have higher profits and sales and also less likely to close (Fairlie, 2008). Financial capital noted as "the availability of financial capital can affect the performance of the venture by creating a buffer against random shocks and by allowing the pursuit of more capital-intense strategies, which are better protected from imitation" (Cooper et al., 1994, p. 375). Financial capital availability influences firm growth and performance (Storey, 1994; Cooper et al., 1994). A study conducted by Fatoki (2011) revealed that financial capital is positively related to SME performance in South Africa. Abdullahi, Ghazali, Awang, Tahir and Salim (2015) found that finance has a positive and significant effect on the performance of SMEs in Nigeria. This discussion suggests the following hypothesis:

H2: *Financial capital has a positive influence on business performance.*

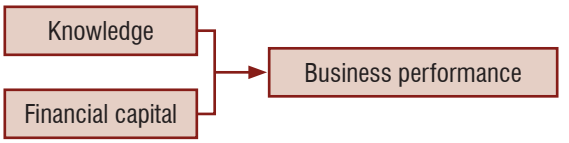

Figure 1 Research framework

RESEARCH METHODOLOGY

The respondents in our study are consisting of 336 entrepreneurs who own a restaurant in West Coast of Sabah (i.e. Tebobon, Telipok, Tuaran, Inanam, Damai, Kepayan, Kota Kinabalu City, Kota Belud, Lintas, Luyang, Papar, Penampang and Putatan). Data were collected in 2016 through a structured survey questionnaire obtained personally from the owners of the restaurant. Women entrepreneurs are the main player in the restaurant sector in the West Coast of Sabah 51.2 per cent and followed by 48.8 per cent owned by men entrepreneurs. In term

of age, the majority at the age of 31 to 40 years old, 49.4 per cent and the majority married 44.3 per cent (see Table 1). Four items measuring business performance were adapted from Lerner, Brush and Hisrich (1997) and the two independent variables such as knowledge were adapted from Felicio, Couto, and Caiado (2014) and financial capital adapted from Fatoki (2011) and Okafor (2012) (refer to Appendix A). All items were rated on reflective 5-point Likert scales with the anchored of 1 – "strongly disagree" and to 5 – "strongly agree". The data collected were statistically analysed using Partial Least Squares (PLS) technique through the SmartPLS program version 2.0 software (Ringle, Wende, & Will, 2005).

Table 1 Profile of the respondents

Variables	Descriptions	Frequency	%
Gender	Male	164	48.8
	Female	172	51.2
Age	20 – 30	94	27.9
	31 – 40	166	49.4
	41 – 50	66	19.6
	51 above	10	2.98
Marital status	Single	69	20.5
	Married	149	44.3
	Divorced	36	10.7
	Widowed	82	24.4
Education level	SPM/ O level	102	30.4
	STPM / Matriculation	68	20.2
	Bachelor	163	48.5
	Masters	3	0.9
Race	Kadazandusun	55	16.4
	Brunei	64	19.0
	Bajau	52	15.5
	Murut	15	4.5
	Rungus	37	11.0
	Bugis	48	14.3
	Melayu	65	19.3
Type of business	Sole proprietorships	117	34.8
	Partnership	147	43.8
	Company	72	21.4
Full-time employees	2	5	1.5
	3	35	10.4
	4	76	22.6

	5	118	35.1
	6	72	21.4
	7	29	8.6
	8	1	0.3
Part-time employees	Nil	113	33.6
	1	94	28.0
	2	103	30.7
	3	26	7.7
No. of restaurants	1	333	99.1
	2	2	0.6
	3	1	0.3

Results Measurement Model Estimation

Convergent and discriminant validity was performed to determine whether the indicators of each of the studied variables in this research were measuring what is supposed to measure. Measurement items on the research comprise of one endogenous variable (dependent variable) that is a business-performance which consists of four items and two independent variables such as knowledge (4 items) and financial capital (3 items) (i.e. exogenous variables). However, to fit with the requirements of convergent and discriminant validity several items were removed from each exogenous variable (i.e. BP4, KNOW1 and FC2) due to low loadings score (see Appendix A, for a full description of the items). For convergent validity, both indicator reliability and construct reliability were assessed (Peter, 1981) using two indices, namely composite reliability (CR) and average variance extracted (AVE). Composite reliability developed by Werts, Linn, and Joreskog (1974) is a measure of internal consistency. The average variance extracted (AVE) was originally proposed by Fornell and Larcker (1981) that attempts to measure the amount of variance that latent variable (LV) component captures from its indicators relative to the amount due to measurement error. Based on Table 2, the results of the measurement model showed that all the estimated indices were above the threshold (Bagozzi & Yi, 1988) of 0.7 for CR and 0.5 for AVE. More specifically, the results indicate that the CR for each of the constructs ranges between 0.915 to 0.927 and the AVE for each of the constructs ranges between 0.787 to 0.845.

Table 2 Result of the measurement model

Model constructs	Item	Loadings	AVE	CR
Business performance (BP)	BP1	0.859	0.787	0.917
	BP2	0.883		
	BP3	0.919		
Knowledge (KNOW)	KNOW2	0.939	0.809	0.927
	KNOW3	0.815		
	KNOW4	0.939		
Financial capital (FC)	FC1	0.951	0.845	0.915
	FC3	0.885		

Note: Average Variance Extracted (AVE) = (summation of the square of the factor loadings)/{(summation of the square of the factor loadings) + (summation of the error variances)}, Composite Reliability (CR) = (square of the summation of the factor loadings)/ {(square of the summation of the factor loadings) + (square of the summation of the error variances)}, items BP4, KNOW1, FC2) were deleted due to low loadings.

In terms of discriminant validity, the measurement items of each of the studied constructs were examined by looking at the cross-loadings in which correlating the component scores of each latent variable with both their respective block of indicators and all other items that are included in the model (Chin, 1998). Table 3 indicates that all of the constructs in this research have met the criterion as suggested by Gefen and Straub (2005). To be exact, all of the studied constructs have shown acceptable discriminant validity. Table 3 represents the square root of AVE and the correlations between constructs. The results showed that the square root of AVE is larger (in bold) than the correlation with other constructs. Table 4 depicts the loadings and cross-loadings for all of the variable construct were included. The loadings on each respective construct were coloured (in bold) across the rows reveals that each item loads higher on its respective construct than on any other construct. Going down a column also shows that a particular construct loads highest with its item. Taken together, this implies adequate discriminant validity (Esposito Vinzi, Chin, Henseler, & Wang 2010). These bold items were retained for further analysis (refer to Appendix A).

Table 3 Discriminant validity of constructs

Constructs	BP	FC	KNOW
BP	**0.887**		
FC	0.296	**0.918**	
KNOW	0.379	0.487	**0.899**

Note: Diagonals (in bold) represent the average variance extracted while the other entries represent the squared correlations

Table 4 Loading and cross-loadings

Items	BP	KNOW	FC
BP1	**0.859**	0.176	0.337
BP2	**0.883**	0.303	0.362
BP3	**0.919**	0.299	0.305
FC1	0.316	**0.951**	0.505
FC3	0.210	**0.885**	0.368
KNOW2	0.315	0.436	**0.939**
KNOW3	0.376	0.433	**0.815**
KNOW4	0.315	0.436	**0.939**

Note: Bold values are loadings for items which are above the recommended value of 0.5

Structural Model

After knowing the items retained for further analysis, the next step is to test the explanatory power as well as the predictive power of the exogenous variables (Esposito Vinzi et al., 2010). The explanatory power is examined by looking at the squared multiple correlations (R^2) of the main endogenous variable and t-values were obtained through the bootstrap routine (Chin, 1998). Five thousand (5,000) valid sub-samples were extracted for bootstrapping technique in this research. The path coefficients and *t*-values results will confirm the significance of the hypothesized relationships. Table 5 presents the initial path coefficients and hypothesis testing of this research, which indicates that all two hypotheses of the research were supported and only one was not supported. Figure 2 shows the conceptual model and the bootstrap results of the research. More specifically, the results indicated that two independent variables namely knowledge ($\beta = 0.307$, $t = 5.926$) and financial capital ($\beta = 0.147$, $t = 2.858$) were positively related to business performance. Therefore, H_1 and $H2_6$ were supported.

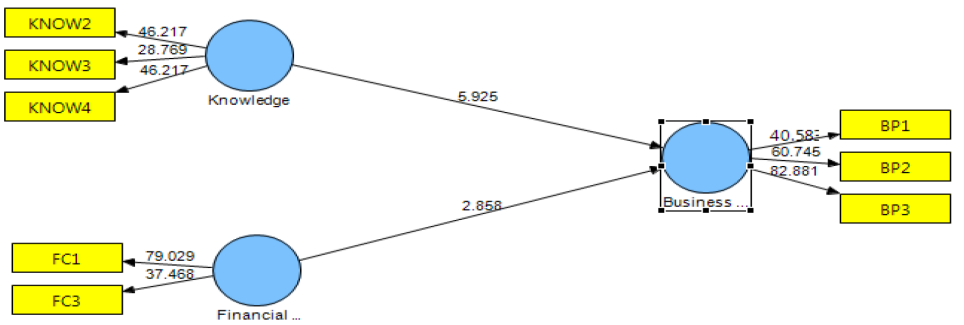

Figure 2 Full entrepreneurial intention model

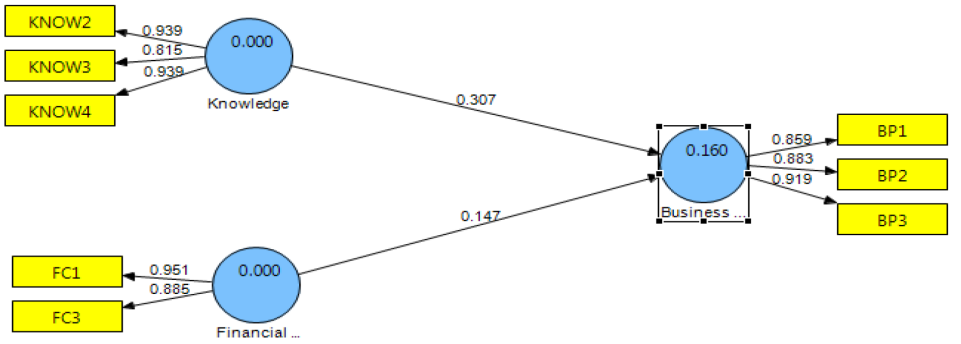

Figure 3 Final structural model with path coefficients

Table 5 Initial path coefficients and full hypothesis testing

Hypothesis	Relationship	Std. Beta	Std. Error	*t*-value	Decision
H_1	Knowledge -> Business Performance	0.307	0.052	5.926***	Supported
H_2	Financial capital -> Business performance	0.147	0.051	2.858**	Supported

Notes: *t*-values are computed through bootstrapping procedure with 336 cases and 5000 re-samples, *$p<0.5$; **$p<0.01$; ***$p<0.001$

In terms of reporting the analysis for the inner recursive model can be analysed from the Adjusted *R*-square (R^2) for each endogenous variable (Latan & Ramli, 2013). The R^2 values should be high enough for the model to achieve a minimum level of explanatory power (Urbach & Ahlemann, 2010). According to Falk and Miller (1992), R^2 values should be equal to or greater than 0.10 for the variance explained of a particular endogenous construct to be deemed adequate. Cohen (1988) recommended that R^2 values for endogenous latent variables could be assessed as 0.26 (substantial), 0.13 (moderate) and 0.02 (weak). Based on Figure 2, our research applies the condition from Cohen (1988) where the R^2 result is moderate = 0.160 or 16% of the variances in business performance can be explained by the exogenous variables (i.e. KNOW and FC). Based on the beta score and *t*-value of the entire exogenous constructs in Table 5, knowledge appears to be the most important factor that contributes to the formation of business performance.

DISCUSSION

The result of the study revealed the importance of knowledge and financial capital on business performance. Prospect entrepreneurs should gain more knowledge before embarking in the foodservice sector. Meanwhile, for the entrepreneurs in this sector, he or she have got to invest some amount of money to gain related knowledge especially with foodservice either in terms of the variety of the food, the service is given to consumers, how to grow the business or sustain

in the marketplace and other related knowledge through formal or non-formal education. For examples, attend a business conference, trade exhibition, short courses and training. From there the entrepreneurs can learn more new knowledge and be able to build an entrepreneurial network to others that may bring help to access to financial capital support. Knowledge of the entrepreneurs is one of the crucial key important assets to sustain in the marketplace and be able to decide the best solution to expand the business. However, the study only covers the West Coast of Sabah. Future research may expand to other states in Malaysia and figure out the role of external factors such as environmental hostility and social support.

CONCLUSION

In conclusion, our study answering the two questions that have been arises at the beginning of this study. First question, (i) does knowledge significantly lead to business performance in the foodservice sector. The study found that knowledge has a significantly positive effect on business performance. Second question, (ii) does financial capital significantly lead to business performance in the foodservice sector. The second result also found that financial capital is a significantly positive effect on business performance. Not end but least, our study give some insights to future entrepreneurs or existing entrepreneurs to emphasis more towards knowledge development to sustain in the marketplace. On the other hand, financial capital is important to indicate the business performance. From the knowledge stock, entrepreneurs and prospect entrepreneurs can manage their financial capital wisely.

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APPENDIX A

Constructs	Code	Item	Sources
Knowledge	KNOW1	Academic level of the business owner is important in my business.	Felicio et al. (2014)
	KNOW2	Academic level of the manager is important in my business.	
	KNOW3	Specific training of the business owner is important in my business	
	KNOW4	Specific training of the manager is important in my business.	
Financial capital	FC1	My business is willing to take the form of equity and/ or debt capital infusion into my business.	Fatoki (2011) and Okafor (2012)
	FC2	My business is willing to borrow in order to run my business.	
	FC3	My business is willing to get access to financial capital (debt) to run my business.	
Business performance	EI1	I am satisfied with the profit after three years of my business operations	Lerner, Brush and Hisrich (1997)
	EI2	I am satisfied with the gross profit after three years of my business operations	
	EI3	I am satisfied with the product / service excellence after three years of my business operations	
	EI4	I am satisfied with the revenue and sales growth after three years of my business operations	