

**Investigating the Internal and External Factors that Affect  
Growth Business Intention and Corporate Social  
Responsibility (CSR) Intention among Small Medium  
Enterprise in Malaysia**

**By**

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## **DEDICATIONS**

This dissertation is truly a labour of love in dedication to my family members:

To my parents; my mother, Hajah Kadijah Bt. Haji Abu Bakar bt and my father, Haji Mohamad Karudin bin Mohd Noor for their unfailing love and sacrifice for me.

To my parents-in-law; Haji Saleh bin Yusuf and Hajah Zainab bt Mohd Zain for their kind understanding and faith in me.

To my beloved wife Marzura bt, Saleh for her enduring love, support, patience and understanding. She is the tender wind that carries me throughout all the seasons of my life, the light in my darkest days, and my inspiration for all times.

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**KAJIAN BERKAITAN FAKTOR-FAKTOR DALAMAN DAN LUARAN  
YANG MEMPENGARUHI NIAT UNTUK MENGEMBANGKAN  
PERNIAGAAN DAN NIAT UNTUK MEMPRAKTISKAN  
TANGGUNGJAWAB SOSIAL DALAM PERNIAGAAN DI KALANGAN  
USAHAWAN KECIL DAN SEDERHANA DI MALAYSIA**

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Perniagaan berkskala kecil dan sederhana merupakan komposisi terbesar dalam persekitaran perniagaan di Malaysia. Oleh yang demikian, peranan pengusaha kecil dan sederhana untuk memastikan perkembangan perniagaan mereka adalah amat penting berdasarkan kesan kepada perkembangan ekonomi negara dalam menyediakan peluang-peluang pekerjaan yang dapat membantu kepada pertumbuhan positif keluaran kasar negara. Walau bagaimanapun, statistik menunjukkan aliran perkembangan perniagaan kecil dan sederhana di Malaysia adalah kurang memberansangkan dan ini sudah pastinya akan memberi kesan yang negatif kepada pertumbuhan ekonomi Negara untuk jangka masa panjang. Oleh kerana itu, penyelidikan ini telah dicetus berpandukan Teori Institusi yang terdiri daripada beberapa faktor iaitu dimensi regulatori, dimensi kognitif dan dimensi budaya persekitaran yang bertindak sebagai pembolehubah utama dalam kajian ini yang mempengaruhi niat untuk mengembangkan perniagaan dan niat untuk mempraktiskan tanggungjawab sosial dalam perniagaan. Bagi memperkukuhkan lagi dapatan kajian, kepercayaan kepada diri sendiri di kalangan para pengusaha telah digarapkan sebagai salah satu pembolehubah yang memberi kesan kepada dimensi kognitif. Dapatan kajian ini menunjukkan bahawa, dimensi regulatori tidak memberi kesan kepada niat untuk mengembangkan perniagaan dan niat untuk mempraktiskan tanggungjawab sosial dalam perniagaan, manakala dimensi kognitif dan dimensi budaya persekitaran

memberi dampak kepada niat untuk mengembangkan perniagaan dan niat untuk mempraktikkan tanggungjawab sosial dalam perniagaan. Di samping itu kepercayaan kepada diri sendiri juga menunjukkan kesan yang positif kepada dimensi kognitif.

**INVESTIGATING THE INTERNAL AND EXTERNAL FACTORS THAT  
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SMEs represent the largest composition of all established businesses in Malaysia. Hence, the role of SMEs towards the nation's growth with respect to the economic, employment as well as gross domestic product is substantial. Having said that, only a countable sum of the SME entrepreneurs have the intention to grow their business. This is somewhat a worrying trend given that the economic development of a country depends considerably on the ability these entrepreneurs to grow and expand their businesses. This study is therefore designed based on Institutional Theory that consists regulatory, cognitive and normative as main dimensions to investigate the internal and external factors that will influence SME growth intention and SME CSR Intention in Malaysia. In order to enhance the findings, the effect of self efficacy on cognitive dimension is accounted for. The findings reveal that regulatory dimension does not have any significant impact on SMEs intention to grow and to practice CSR, whereas other dimension namely cognitive and normative dimensions do have positive impacts on SMEs intention to grow and to practice CSR. In addition, self efficacy is found to have a positive influence on cognitive dimension.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of the Study**

Small medium enterprises (SMEs) play a vital role in boosting the economy of Malaysia since decades. Notably, even though researchers have reached to a consensus on the ability of SMEs to fuel the economic growth, recently, issues on the capability of the SME owners to grow their business as well as the prevalence of corporate social responsibility (CSR) among these SMEs have been greatly debated. This is follows Gibb's (2005) contention that socially responsible behaviors among smaller firms should be considered as a key competency that lays the ground for the way the business should operate that will subsequently enhance firm's growth and overall performance.

Without doubt, SME entrepreneurs need to consider growing their business and venturing into larger business scale in order to spur the economy of the country. Sadly however, it is observed that the level of growth intention among entrepreneurs in Malaysia are rather low if compared to other developing country in the region like Vietnam, Thailand, Indonesia, South Africa, Philippine and so on. In most developing countries, SMEs are the most important source of new employment opportunities. SMEs make substantial contributions to employment and comprise the majority of businesses in the nation (Burns & Dewhurst 1996).

For example, in Thailand, the largest number of businesses is classified as SMEs. Their distribution is covered in all sectors including retail, service, manufacturing, agricultural manufacturing, trade all over the Thailand. Strengthening SMEs is a main issue to expand growth and distribute income of the country. The Thailand Institute for Small and Medium Enterprises Development (ISMED) reported that SMEs in Thailand represent over 90% of the total number of entrepreneurs in nearly all business sectors, and employ over 60 % of the labor force. (Kitprem 2007)

In addition, while scholars are scrutinizing the factors that could encourage SME to grow their business, a more recent observation depicts that SMEs are expected to consider corporate social responsibility in their daily business practices so as to achieve the “Triple Bottom Line” agenda that includes not only economic consideration but also social and environment alike. Against this backdrop, the present study seeks to unearth the factors that could influence the entrepreneurs’ growth intention as well as the consideration to engage in corporate social responsibility practices.

Among the predictors of interest include self efficacy, attitudes towards ethical and social responsibility practices, as well as regulatory, cognitive and normative dimensions of institutional theory profile. Specifically, this study will examine the impact of regulatory, cognitive and normative dimensions on the SME entrepreneurs’ intentions to grow their business as well as to practice CSR. In addition, it seeks to examine the effect of self-efficacy on the cognitive dimensions of the institutional theory profile.

## **1.2 Overview on Entrepreneurship**

Entrepreneurship is one of the research fields that have attracted the attentions of researchers and scholars worldwide given that entrepreneurial activities is seen as a potential solution for the current reliance on external investors as well as the heavy dependence on large organizations to fuel the economy. Hence, the interest to boost entrepreneurship is driven by several factors, in particular, the benefits that entrepreneurs bring to the sustainable development of a country's economic and social agenda. Effectively, the entrepreneurial outcome of business growth is eventually the enhancement of the country's economic movement as well as the creation of more job opportunities to the society.

In highlighting the benefit of entrepreneurial activities such as growing the existing ventures, Chow & Fung (1996, p.490) states that "entrepreneurship is capable of revitalizing some formerly planned economies". In a similar vein, Reynolds (1997, p.81) argues that entrepreneurship "has long been viewed as engines that drives innovation and promotes economic development."

More often than not, such entrepreneurial activities can be observed from the activities performed by SMEs. It has been long recognized that SMEs forms as economic propulsion base for both developed and developing economies. The sector's contributions to the nation's economy can be seen from various aspects such as in terms of inflation rate, growth domestic index, unemployment statistical data, SMEs business growing data, foreign direct investment index and so on. As mentioned earlier, recently, there is an increasing scrutiny in regards to the role SMEs play to uphold the corporate social responsibility practices. Scholars who propagate CSR

claim that “good practice (i.e., CSR) is good for business”, economically and socially (Ahmad, 2009; Luken & Stares, 2005; Zairi & Peters, 2002). Hence, the main argument is that entrepreneurial ventures that devote resources and efforts to try to improve the society and the world around them will also “do well” and thus be successful both financially and socially. Based on this premise, this study also looks into the extent to which Malaysian SMEs are ready to embark on their CSR journey.

The abundance of literature in entrepreneurship has also identifies the various views and definitions attached to the term entrepreneurship. Among the recent ones indicates that entrepreneurs growth intention is based on environmental condition such as government policies, socioeconomic conditions, availability of business skills, financial and non financial assistance. Besides that, research often indicates a link between entrepreneurial growth intention and characteristic of entrepreneurs background such as age, gender, races, level of education, income, and family have significant effects towards entrepreneurial intention.

Furthermore, entrepreneurship is a process where an entrepreneur creates something new business opportunity by taking the risks and receiving the rewards. Nowadays, issues on how entrepreneurship playing a vital role to the agenda of triple bottom line has been widely discuss as well as profit goals. Moreover, in many previous researches, entrepreneurship is translated as miscellaneous terms. Therefore, this can be viewed by a summary of the definitions exist for the construct of these terms in Tables 1.1, 1.2 & 1.3 below.



**Table 1.1*****Various Definitions of an Entrepreneurship***

<b>Author(s)</b>	<b>Definitions</b>
Marx, Reynders, Van Rooyen & Bosch (1998)	Progress for economic opportunities in the market and utilizes them in an innovative way to increase prosperity by combining and managing the necessary resources, of which a substantial part is usually contributed personally, within a specific enterprise.
<u>Barrow (1998)</u>	Capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward and lead by someone who perceives an opportunity and creates an organization to pursue it.
Bolton & Thompson (2000)	Process habitually creates and innovates to build something of recognized value around perceived opportunities. It involves finding personal energy by initiating and building an organization requires a vision and passion, commitment and motivation.
Thornberry (2003)	In economics, entrepreneurship is regarded as a factor of production together with land, labor, natural resources, and capital through someone

	who enters a business in time to form (or change)
	meaningfully that business nerve or decision center
Rutherford and Holt (2007)	Process of enhancing the ability of the organization to obtain, utilize and creates an innovative economic organization for the purpose of gain or growth under conditions of risk and uncertainty.

**Table 1.2**

***Definitions of SMEs by Sales Turnover***

<b>Size</b>	<b>Manufacturing (including Agro-Based) and Manufacturing-Related Services</b>	<b>Services Sector including ICT and Primary Agriculture</b>
<b>Micro</b>	Less than RM 250,000	Less than RM 200,000
<b>Small</b>	Between RM 250,000 and less than RM 10 million	Between RM 200,000 and less than RM 1 million
<b>Medium</b>	Between RM 10 million and RM 25 million	Between RM 1 million and RM 5 million

*Source: National SME Development Council (2005), SME Annual Report*

**Table 1.3**

***Definitions of SMEs by Full-Time Employment***

<b>Size</b>	<b>Manufacturing (including Agro-Based) and Manufacturing-Related Services</b>	<b>Services Sector including ICT and Primary Agriculture</b>
<b>Micro</b>	Less than 5 employees	Less than 5 employees
<b>Small</b>	Between 5 and 50 employees	Between 5 and 19 employees
<b>Medium</b>	Between 51 and 150 employees	Between 20 and 50 employees

*Source: National SME Development Council (2005), SME Annual Report*

### **1.3 Entrepreneurship in Malaysia**

The main intentions to develop SMEs in Malaysia are to remedy the problems of society's unemployment, increase the rate of growth of real per capita income, balance income distribution among various races and improve economic stability within rural and urban area. In view of these goals, the development of SMEs in Malaysia is often assigned high priority by the government not just for the term of economic but also to ensure the performance of social and environment.

Having said that, Malaysia government proactively evolve in providing the fund, training, loan, tax incentive and so on to develop Malaysia as entrepreneur foundation country especially among bumiputeras where is economic cluster empowerment is around 19.2% since new economic development (NEP) was formed in 1971. On the other hand, Malaysia government also emphasize for the unemployment index among bumiputeras which increase every year including university graduate that more interested to be government servant rather than become as entrepreneur.

According to Najib (2009) in UMNO Assembly 2009 that New Economic Policy to promote economic equity 30 per cent ownership for the indigenous people in Malaysia should be retains in order to enhance Malay economic hold which is shown just 19.2% in 2008 after it was introduce in 1971. This fact shown that Malays economic still far away crawling compare to the other race economic hold especially Chinese that well conquering for Malaysia economic cake. Currently, Malaysia Chinese economic hold has been established develop based on entrepreneurship as profession rather than wage employment.

Previously, SMEs activities are similar to the activities of business in general such as grocery shop, small scale construction, handy craft maker and furrier. However, over the years, their business activities have undergone changes. Originally, Malaysia SMEs were concentrated in the agricultural such as agricultural natural product producer and general business such as wholesaling, retailing, restaurant sectors. Recently, their business activities have expanded rapidly into the manufacturing sector. By the way, the growth intention among entrepreneurs in Malaysia is still low to compare to the others developing country like Vietnam, China and India. Owing to political and economic changes, SMEs in Malaysia have undergone rapid development.

From humble beginnings, the SMEs sector evolves through different stages of development. Despite its rapid development, few studies have reported accounts of the evolution of the SMEs sector that less effective in term of growth intention aspect. This paper provides an account of the growth intention among entrepreneurs of the SMEs sector in Malaysia. On the other hand, the second objective of this paper is to provide an insight into the internal factors, the external factors, culture factors and the understanding to the concept of CSR consideration towards social and environment development of the SMEs sector in Malaysia.

## **1.4 Problem Statement**

Globalization has brought about many changes for both developed and developing countries. Greater access to global markets has allowed countries to increase economic growth, employment contribution, develop innovation, and reduce poverty rates. Malaysia's commitment to international trade can be seen on how the country transform itself from conventional economy dependent on agricultural, towards world's leading innovation, research and development country in globalization and competitive world economic environment.

In this rapidly changing global economy, small and medium enterprises (SMEs) are increasingly becoming a force for national economic growth. The development of diverse and competitive SMEs is crucial for creating economic resilience and contributing towards growth. The main reason for the focus on Malaysian SMEs is based on the importance of SMEs to Malaysia economy. SMEs have been acknowledged as the strategic thrust in Malaysia economy based on various reports of government agencies (SME Annual Report 2005, 2006: 9<sup>th</sup> Malaysia Plan, 2006; Third Industrial Master Plan (IMP3) 2006 – 2020, 2006). ([www.sme.com.my](http://www.sme.com.my))

The growing in SMEs is referred to the changing process of business micro stages to the business medium stages. Even though there is no accurate figure being published so far in order to reflect the reluctance of Malaysian SME entrepreneurs to grow their businesses, it is observed that SME entrepreneurs in Malaysia prefer to remain small based on the statistic (refer table 1.4, 1.5, 1.6 and 1.7).

**Table 1.4***Distributions of SMEs based on Establishments and Enterprises 2005*

Sector	Establishments	SMEs	% of SMEs	% of Structure
<b>Total</b>				
<b>Manufacturing</b>	39,219	37,866	96.6	7.3
<b>Services</b>	119,980	118,662	98.9	23.0
<b>Retail, Wholesale &amp; Restaurants</b>	312,245	311,234	99.7	60.2
<b>Finance</b>	19,291	19,108	99.1	3.7
<b>Total Services</b>	451,516	449,004	99.4	86.9
<b>Total Agriculture</b>	32,397	29,985	92.6	5.8
<b>Overall Total</b>	523,132	516,855	98.8	100

*Source:* The Department of Statistics

**Table 1.5***Number and Employment (%) in ASEAN and NON-ASEAN Countries*

Country	% SMEs of Total (0-99)	Micro (<5)	Small (5-19)	Med (20-99)	SME workforce as % of total employment	% GDP Non Oil
<b>ASEAN</b>						
Brunei	98	43	53	4	92	66
Indonesia	98	88.8	9.7	1.5	88	
Malaysia	84	46	63	n.a	12.3	17.5
Philippine	99	91.1	8.2	0.4	66	
Singapore	91	67.4	24.3	6.1	52	34.7
Thailand	96	78.9	18.4	2.1	76 <i>cl</i>	
Vietnam	96	1	1		85	65
<b>NON</b>						
China	99	86.8	7.6	4.9	78	
Japan	99	56.5	34.7	7.4	78	
South Korea	99	72.7	17.8	8.6		

*Sources:* Asasen, *et.al.*, 2004, in Mangara Tambunan & Lasmono Tri Sunaryanto, Medium Enterprises as New Source of Economic Growth of ASEAN Countries: Cross-Country Comparison in presenting Paper for the 16th MEA Convention on December 9, 2004 and the 29<sup>th</sup> Paper Conference of the Federation of ASEAN Economic Associations (FAEA) December 10-11, 2004, Institute Integrity of Malaysia, Kuala Lumpur, Malaysia

*Notes:* a/ Estimates, b/ 1998, c/ Manufacture only

According to Normah (2006) in UNDP published paper (2007) “Micro establishments represent 79.4 per cent (412,000) of Malaysia’s SMEs, and they predominate in the services and agriculture sectors, accounting for 80.4 per cent and 93.3 per cent respectively. Small establishments constitute 18.4 per cent and medium establishments, 2.2 per cent” .With reference to these statistics, study interested to investigate what are internal and external factors contribute to the slowly growing process from micro stages to medium stages among Malaysian SMEs entrepreneurs.

On the other hand, such inference is made based on the published data that portray the contribution of SMEs in Malaysia as compared to other Asian counterparts especially in regards to employment rate (refer to Table 1.6). Presumably, should the SMEs grow or expand their businesses; it is highly likely that the contribution of this sector to the total employment rate would increase. This is somewhat an unfavorable scenario given that SME growth would contribute tremendously to a country’s economic development as well as employment rate.

**Table 1.6**

***Percentage of Asian SMEs among total enterprises, contribution to employment and percentage of total value added (%)***

	Malaysia	Thai	Philippines	China	Indonesia	Korea	India
<b>SME establishment</b>	94.4	98	99.6	99	99.7	99.9	95
<b>Employment</b>	40.4	55.8	69.1	88%	74	99.04	80
<b>Value added</b>	26	47	32.0	56%	60	63.11	40

***Sources:*** JICA and others, taken from [www.dti.gov.ph/filedirectory/SMEagenda.ppt](http://www.dti.gov.ph/filedirectory/SMEagenda.ppt). UNIDO, *International Yearbook of Industrial Statistics 2002*, taken from (Das, 2003) and (Dhungana, 2003), cited in C. Chaminade and J. Vang-Lauridsen, *Innovation Policies for Asian SMEs: An Innovation System Perspective*

In addition, the introduction of the new concept in Ninth Malaysia Plan is envisaged to foster entrepreneurs' interests to develop as well as grow their ventures. Having said that, there is little understanding of the factors that affect entrepreneur intentions to grow their ventures in business, in particular the Malaysian context (see for example, Raduan Che Rose, Naresh Kumar & Lim Li Yen (2006).

According to the authors there is a major change from a managerial to an entrepreneurial economy as thousands of new businesses being created each year which envision to grow into large enterprises. As such, ensuring the survival and venture growth of the Malaysian SMEs is crucial. The authors further remark that even though "many studies have been done on SMEs' growth and the key success factors contributing to venture growth, yet only 10% of these start-ups survived beyond the 10 years mark" (p. 74). This clearly calls for more study to be undertaken to understand the factors that may contribute to venture growth intention.

As mentioned earlier, the SME entrepreneurs play a vital role in the Malaysian economic performance, especially those that grow their businesses. The actual number of SMEs in Malaysia is still not accurate and need to be determined. Nowadays, database of Malaysia SMEs is rather inconsistent but a common agreement is that the number of SMEs in Malaysia is growing. Statistic in table 1.7 below shown the number of SMEs growth as reported from 1985-2006:



**Table 1.7*****Malaysia SMEs growth 1985 – 2006***

<b>Number</b>	<b>Name of sources</b>	<b>Year reported</b>	<b>Number of SMEs</b>
1	Department of Statistics	1985	5,360
2	Ministry of International Trade and Industry	1988/1989	13,998
3	Seventh Malaysia Plan Report	1994	12,108
4	Small and Medium sized Industries Development corporation	1997	50,000
5	Ministry of Energy, telecommunications and Multimedia	1999	100,000
6	Department of Statistics, Malaysia	2006	500,000

**Source:** SMIDEC Annual Report (2007)

& Amran, 2009). Given the uprising awareness in regards to CSR and the linkage between “good ethics and good business” (Ahmad, 2009), it is deemed timely that the aspiration of SME entrepreneurs towards CSR to be investigated. Businessmen have the comfort knowing that their CSR practice will reach them at a higher level of business performance.

However, such case is not entirely true for certain entrepreneur, especially when business is largely affected by market dynamics and profitability remains volatile. Entrepreneurs need to brace themselves, while finding comfort that they have the flexibility and earn what they themselves are capable to deliver CSR in business. This

also means that they need to accept the losses that come along with down periods while practicing CSR in their business.

According to Yves (2008, p.375) “CSR is about the right attitudes, about mentality: formalisation with reports may help to improve transparency and accountability, but reports alone are not enough unless there is a proper implementation of suitable policies. CSR reporting is only a tool, and published reports do not constitute a proof of CSR. The essence of CSR lies in the implementation of responsible business practices at all levels of the corporation; it lies in the corporate culture, not in formalization”.

This study therefore, attempts to test a model that draws on the theory of institutional and also to enhance it with internal, external factor to examine the entrepreneurial growth and CSR intentions among entrepreneurs. Specifically, this study integrates the Institutional Theory and the Theory of Planned Behavior to predict growth intention and CSR consideration among SME in Malaysia.

## **1.5 Research Objectives**

Based on the preceding discussion, the objectives of this study are:

1. To examine the effect of regulatory dimension towards SME growth intention
2. To examine the effect of regulatory dimension towards SME CSR intention
3. To examine the effect of cognitive dimension towards SME growth intention
4. To examine the effect of cognitive dimension towards SME CSR intention
5. To examine the effect of normative dimension towards growth intention
6. To examine the effect of normative dimension towards CSR intention
7. To examine the effect of self efficacy towards growth on cognitive dimension towards growth.
8. To examine the effect of self efficacy towards CSR on cognitive dimension towards CSR

## **1.6 Research Questions**

The present study seeks to find answers to the following research question:

1. Does regulatory dimension towards growth influence SME growth intention?
2. Does regulatory dimension towards CSR influence SME CSR intention?
3. Does cognitive dimension towards growth influence SME growth intention?
4. Does cognitive dimension towards CSR influence SME CSR intention?
5. Does normative dimension towards growth influence SME growth intention?
6. Does normative dimension towards CSR influence SME CSR intention?
7. Does self efficacy influence the cognitive dimension towards growth?
8. Does self efficacy towards CSR influence the cognitive dimension towards CSR?

## **1.7 Significance of the Study**

From a practical standpoint, the research has implications to SME entrepreneurs in Malaysia in that business expansion is vital and will give deep impact not just for their self sufficient, rather boost economic country. Nowadays, Malaysia economic stability has been depending on the GLCs and MNCs as major contributors. This study however, will provide insight into how SMEs can revitalize the economic structure that depends heavily on larger businesses.

This study propagates that by encouraging SME entrepreneurs to expand and grow their business, the dependence on the large organizations as the source of economic development and employment can be minimized. It has been proven by many developed countries which are dependable to the SMEs as important contributor to the country economic sustainability based on higher growth intention of business expansion.

Besides that, better understanding into identifying the means to motivate SME entrepreneurs to consider CSR in their daily business operation could be generated. This awareness should be nurtured among SME entrepreneurs in Malaysia so as to ensure the sustainability of these ventures given the claim that “good ethics is good for business”.

The research will also be useful for the government agencies such as SMIDEC, MARA, EKUINAS, TEKUN, and FAMA to better understand the mechanism to fuel growth intention as well as encourage CSR practices in SMEs. Based on this study,

those agencies can develop most quality model to help SMEs more keen and interested to enhance their business in future.

Meanwhile, the research also has implications in terms of developing relevant programs to educate and train nascent entrepreneurs pertaining to the importance of expanding their business and practicing CSR in their daily business routines. Entrepreneurship development program need to be holistic and include not only the content on establishing and developing new ventures, but also knowledge about how the important of entrepreneurship growth intention. Besides that, from this research, the principle of how developing Malaysian entrepreneurs to be caring of their social responsibility towards the society.

## **1.8 Organization of the Remaining Chapters**

The present study is organized as follows. The next chapter deals with the literature review of the topic aimed at understanding concept of antecedents, independent variables and dependent variable. It forms the base line for the present study and helps to develop the theoretical framework and hypotheses. Chapter 3 covers illustrate the methodology used in the present study which provides the sample and unit analysis, data collection, method, measurements and statistical analysis method. Chapter 4 contains examination of study hypotheses. Last but not least, in Chapter 5, contains the discussion and implications of the study.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Overview of Literature**

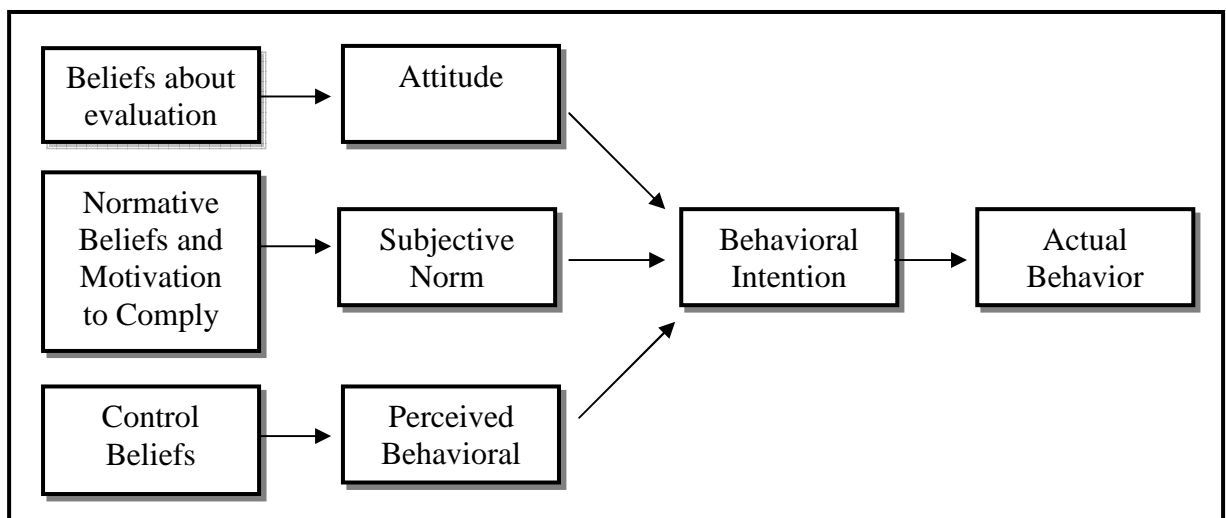
As mentioned earlier, the major issues surrounding SMEs in Malaysia are the inclination of SME owners to grow their business as well as the consideration to engage in CSR practices. In order to restructure the current economy that depends heavily on large organizations especially MNCs, attention should be placed on developing and growing the SMEs. This is because, SMEs by and large, contribute tremendously to the economic well-being of a country. It is also worth noting that some researchers have found evidence that SMEs in Malaysia is “doing well by doing good” to their stakeholders including employees and the local community (Ahmad & Seet, 2009).

The authors argue that SMEs could portray good business image by practicing ethical and social responsibility conduct, which will in turn, entice customers and local community to engage in business dealings with them. From there, it can be implied that apart from growing their business, SMEs should also engage in CSR practices to ensure their sustainability.

Research on CSR is to inspire as well as provide useful management guidelines to cultivate more values-driven individuals in the future and will choose entrepreneurship as a vehicle not just for self expression but also to social

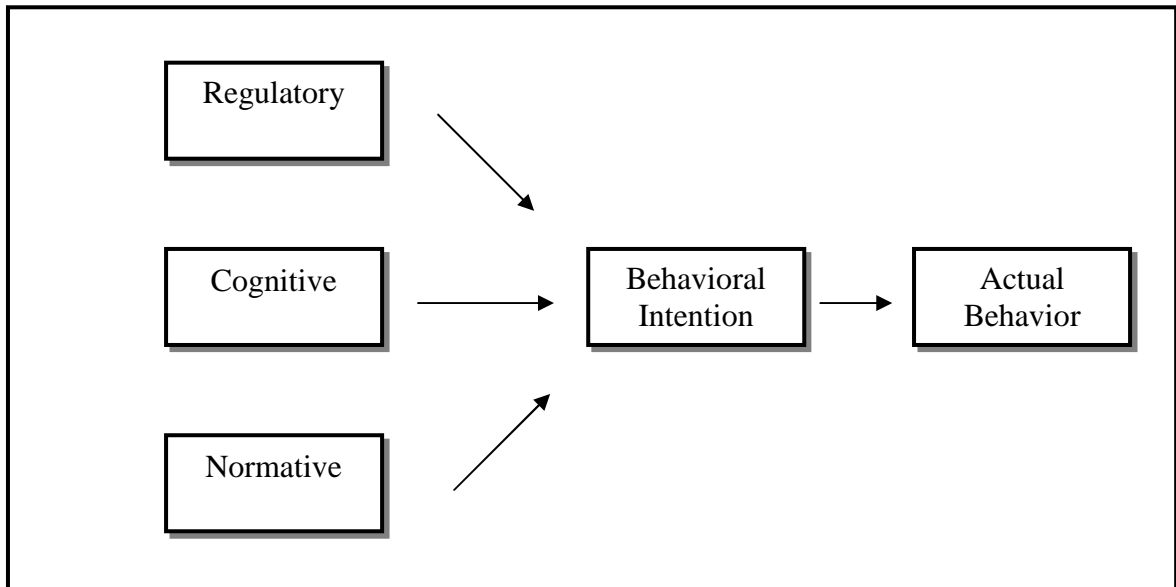
contribution (Choi, Gray, 2004). Therefore, the role of intention as precursor to launching an entrepreneurial venture has been widely studied. In essence, intentions research has used two dominant models to examine entrepreneurial behavior which is Ajzen's (1991) Theory of Planned Behavior (TPB) and Institutional Theory (Meyer & Rowan, 1977).

Powell and DiMaggio's (1991) Institutional Theory explains on how human behavior and action has been depending on perceptions of regulatory, cognitive and normative. While, Ajzen's applies attitude, subjective norm and perceived behavior control as determinant factors to influence people intention towards products, and also services. The main difference between these two is that perceived behavioral control is replaced by regulatory. Ajzen (1991) proposes that the greater of attitude, subjective norm and perceived behavior control in the prediction of intention is depending on behaviors and situations. According to Ajzen (1991), the more favorable the attitude and subjective norm to behavior and the greater the perceived behavior control, the stronger the individual intention to perform the behavior



**Figure 2.1: The Theory of Planned Behavior, Source: Zulkifli, 2007.**

From both models that dominant most research on entrepreneurial intention, this current study opt to apply, Meyer & Rowan (1977), Institutional Theory (IT). By using Institutional Theory, it explains the growth intention among entrepreneurs is influenced by three factors known as regulatory, cognitive behavior of entrepreneurs and normative culture (Jepperson, 1991).



**Figure 2.2: The Theory of Institutional Profile**

In contrast, Ajzen's is ex post that explains the intention of entrepreneurship as a result of a behavior and situations toward attitude, subjective norm and perceived behavioral control. For that reason, IT is more nicely to be applied in CSR research and adopted in the entrepreneurship sustainability triple bottom line literature. Besides that, previous research has also revealed the success of the IT in predicting a wide range of intention such as country entrepreneurship institutional profile, technology focuses entrepreneurial firms, rationality in nonprofit organizations and many more.



## **2.2 Institutional Theory on Entrepreneurial Growth Intention and CSR Intention**

Entrepreneurship growth Intention is seen as vital role to the world economic performance (Liu, 2000). Therefore, entrepreneurship growth intention is indicated to the level of effort, endeavor and commitment towards human behavior in idealized their business vision of what they want to achieve in future (Bird, 1992). According to Krueger et.al (2000), the willingness human intention has shown as most accurate predictor to the actual human behavior.

However, Malaysia SMEs will face amount of constraint to growth their business in influencing from several angel such as the rising global competition, changes in government economic policies and fluctuations of consumer taste and preference. So based on that, in following section will discuss more on three independent variables in IT which is regulatory, cognitive and normative towards entrepreneurship and their effect on predicting SMEs entrepreneurs' economic growth intention. This current study also will emphasize on determining effect of economic as well as corporate social responsibility practice among Malaysia SMEs entrepreneurs'.

### **2.2.1 Regulatory dimension towards growth on SME growth intention**

Regulatory consists by laws, regulations and governmental policies that will assist entrepreneurs in newly form business and also for them to growth by looking more resources for their business expansion (David & Garry, 2002). Regulatory will depend on external business environment towards outcomes when performing the target

regulatory and this perception will be examined as positive and negative impact to entrepreneurship growth intention.

Regulatory was found to be considered through government incentive, entrepreneur agency programmed, learning and training programmed, financial scheme and it heavy influence to the economic concept as the platform to acquire resources for a newly and growing entrepreneurs. Regulatory also will determine the performance and development of towards entrepreneurship in term of social and environment sustainability. Research done by Gnyawali and Fogel, (1994) shown that government policy, financial institution, business environment and support mechanism approaches were found to be preferable in analyzing the regulatory towards entrepreneurship.

Based on that, in this current study, financial institution and CSR regulatory will be added to the model to see their effect on influencing the entrepreneurship growth intention. “Constituting more than 99% of total business establishments in Malaysia, it is clear that promoting a viable SME sector is essential in the nation's stride towards broadening the sources of growth and sustaining the growth momentum. This is reflected in the national development agendas, namely the Ninth Malaysia Plan (9MP: 2006-2010), Third Industrial Master Plan (IMP3: 2006-2015), Eighth Malaysia Plan (8MP: 2001-2005) and Second Industrial Master Plan (IMP2: 1996-2005)”. ([www.sme.com.my](http://www.sme.com.my))

According to Normah, (2007, p.2) “Realizing the role of SMEs, the government’s commitment and concern for the development of SMEs were reinforced when the National SME Development Council, chaired by the Prime Minister of Malaysia, was set up in August 2004. This Council represents the highest-level policy making body to chart the direction and strategies for the development of SMEs. Among the

initiatives announced include the formulation of targeted strategies for the development of SMEs across all sectors; the adoption of specific and standard definition for SMEs according to economic activity; the establishment and maintenance of a comprehensive National SME database and the expansion of development support programmes and facilities to enhance access to financing and accessibility of markets for export (Bank Negara Malaysia, 2006)".

With reference to the above statement, the Malaysia government as main regulatory playing a vital role and contribute a big impact to the Malaysian SMEs growing process from micro stages to medium stages as well as penetration the abroad potential market.

### **2.2.2 Regulatory dimension towards CSR on SME CSR intention**

CSR regulatory is how government implements and encourages the awareness and understanding of CSR practice among SMEs entrepreneurs. Having said that, the CSR implementation is not just for them to understand, beyond they should practice in their day business like contribution to the society and be caring to the environment. Therefore, regulatory CSR should be act by the government agency, department or government link companies to ensure the CSR practice among SMEs has been implemented.

According to Amran, Ling & Yahya (2007) in Noor Hazlina (2009, p.3) "The establishment of the National Integrity Plan (NIP) in 2004 that followed suit is another example of the Malaysian government's commitment to fuel economic

growth through good values and noble practices. The aspiration is that enhancement of ethical and socially responsible practices would ultimately lead to the enhancement of the well being of the community. In addition, the government is seen as a conduit to spur ethical and socially responsible practices among Malaysian firms through various support mechanism i.e the increase of tax deductibility of corporate donations as well as the launch of CSR Perdana Menteri Award in 2007 to recognize firm's charitable contributions to the society".

For example, Department of Environment is responsible to monitor the environment in industrial area such water pollution, gas emission, carbon footprint and so on. Meanwhile, human development department has been concern to the society (workers) sustainable development. An addition, both department can influence SMEs entrepreneurs to practice CSR in their daily business. GLCs would ride on the objectives of management transformation with build strength, capability to contribute for the sustainability development of social and environment by engagement of broaden corporate social responsibility practice in nation (Mohd Erfan, 2009).

### **2.2.3 Cognitive dimension towards growth on SME growth intention**

Cognitive consists of what an entrepreneur understands or knows by having skill and knowledge to open a new business and it was different level of understanding in various countries (Busenitz, 2000). Both dimensions are much important for new foam business entrepreneurs and also for those entrepreneurs that tend to growth their business. This is because both are applying related each other as a result to ensure a successfully for SMEs entrepreneurs business. Besides that, knowledge and skill are