

**ENTREPRENEURIAL BEHAVIOR AND PERFORMANCE  
OF THE MALAY SMALL-SCALE INDIVIDUAL  
ENTREPRENEURS (SIES) IN MALAYSIA**

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## **ABSTRAK**

Objektif utama kajian ini adalah untuk menentukan hubungan antara faktor demografi, faktor persekitaran, dan gelagat keusahawanan dan prestasi usahawan di pekan sempadan negeri Kedah dan Perlis di Malaysia. Kajian ini juga mengkaji peranan antara gelagat keusahawanan dalam hubungan antara pembolehubah bebas dan bersandar. Penyelidikan ini merupakan satu kajian keratan rentas dan kaedah kaji selidik telah digunakan. Data daripada 143 Individu Usahawan Kecil Melayu (SIEs) telah dianalisis menggunakan analisis regresi berbilang. Hasil kajian ini menunjukkan bahawa terdapat hubungan negatif yang signifikan di antara bangsa dengan keperluan untuk pencapaian dan lokus kawalan. Berhubung dengan persekitaran, terdapat hubungan positif antara persekitaran dinamik dan gelagat keusahawanan. Walaupun begitu, persekitaran persaingan hanya menunjukkan sokongan dengan keperluan untuk pencapaian. Hasil kajian juga menjelaskan bahawa keperluan untuk pencapaian dan kawalan lokus mempengaruhi prestasi usahawan secara positif. Walau bagaimanapun, hasil kajian tidak menunjukkan hubungan yang signifikan antara efikasi-kendiri keusahawanan dan prestasi usahawan. Akhir sekali, kajian mendapati bahawa cuma sebahagian daripada keperluan untuk pencapaian dan kawalan lokus menjadi pengantara hubungan antara faktor demografi dan faktor persekitaran dengan prestasi usahawan.

## **ABSTRACT**

The main objective of the present study is to determine the relationship between demographic factors, environment factors, and entrepreneurial behavior and entrepreneurial performance outcome at the border towns of Kedah and Perlis in Malaysia. The study also examines the mediating role of entrepreneurial behavior in the relationships between the independent and dependent variables. The research is a cross-sectional study and a survey method is used. Data from 143 Malay Small-Scale Individual Entrepreneurs (SIEs) were analyzed using multiple regression analysis. The result of this study reveals that level of education has a significant relationship with locus of control. Furthermore, the result shows that there is a negative significant relationship between nationality and the need for achievement and locus of control. With regard to the environment, there is a positive relationship between dynamic: predictive environment and entrepreneurial behavior. On the other hand, hostile: intensity of competition only shows support with the need for achievement. The result also explains that need for achievement and locus of control positively influence entrepreneurial performance outcome. Interestingly, however, the result shows no significant relationship between entrepreneurial self-efficacy and entrepreneurial performance outcome. Finally, the study finds that only need for achievement and locus of control partially mediates the relationship between the demographic factors and environment factors and entrepreneurial performance outcome.

# **CHAPTER 1: INTRODUCTION**

## **1.1 Introduction**

This research attempts to examine the entrepreneurial behavior and performance based on the relationship between demographic factors, and environmental forces among Malay small-scale individual entrepreneurs (SIEs) in the two border towns in Malaysia, namely Bukit Kayu Hitam in Kedah and Padang Besar, in Perlis. This chapter introduces the research plan that highlights the background of the study, problem statement, research questions, research objectives, scope of the study, significance of the study and definitions of the key terms and variables.

## **1.2 Background of the Study**

Small-scale individual entrepreneurs (SIEs) play an important role for the national economy (Azmat & Samaratunge, 2009; Reijonen, 2008). In Malaysian economy, the government recognizes that successful businesses will create jobs and contribute to economic growth. The government has developed six priority areas which are business development, training, acculturation, providing premises, finance and marketing in helping out small business enterprises to develop their businesses (Sulaiman, 2004) as well as various supporting mechanisms and policies that exist for entrepreneurs such as the establishment of a special ministry for entrepreneurs in 1995 (Ariff & Abubakar, 2003). The establishment of the ministry clearly showcases the importance of the government placement upon the issue of entrepreneurship and entrepreneur development.

The priorities given by the government are not specific only to the SIEs, as the government also recognizes the importance of petty traders (Rejab, 1983). For example, the government has set aside RM200 million more in new credit for small businesses and petty traders, bringing the total funds available for these entrepreneurs to RM340 million, which is made available through Tabung Ekonomi Kumpulan Usahaniaga. The Entrepreneur Development Minister, Datuk Mustapa Mohamed said that the additional allocation will be of great help to the hawkers and petty traders (Ghazali, 1998).

According to Rejab (1983), the significant roles of small business and petty traders in our economy, among others are; first, the development of entrepreneurs especially among Bumiputera. Second, is the human capital formation whereby small scale industry provides a pool of entrepreneurs who may be investing the capital productively. Even though the main sources to obtain capital by small scale business are personal savings, reinvested earnings or borrowings from close relatives and friends, the rural Malays seem to prefer investing in assets such as gold, and land. Such assets may be convertible to cash for immediate contingencies. Thirdly, is about the creation of employment, in which through proper development of small business, a large number of job is able to be created at relatively low capital cost. Fourthly, is about the social and political development, whereby small business sectors provide the means for the small independent entrepreneurs to improve their economic and social status. Even if these entrepreneurs fail in their attempt to grow, at least they have tried and hopefully they are well motivated to succeed in their business in the future. Finally, is on the development of small towns and villages. The government has attempted to develop the semi-urban and rural sectors of our economy by bringing the industries into these areas.

The introduction of Northern Corridor Economic Region (NCER) in 2007 highlighted the important steps taken by the government towards realizing the vision to achieve a world-class economic region for the northern states of Kedah, Perlis, Penang and Perak by the year 2025. It aims is to become a sustainable economic region empowered by a population living a balanced lifestyle with a holistic approach to business. In conjunction with the theme of the NCER that is to initiate commitment to growth with social equity, various programs to accelerate growth in the target economic focus areas will be done in a way that emphasizes local community involvement, led and driven by the private sectors and market imperatives (Malaysia, 2007).

According to Dato Seri Shahidan Kassim, the former Chief Minister of Perlis, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) is an important aspect of the NCER. He believed that we can look beyond our national borders to strengthen our economic competitive advantage. To him, Southern Thailand presents Perlis and the NCER with vast areas of hinterland that is rich with natural and human capital resources, which can be utilized to benefit both the Malaysian and Thai public. He emphasizes, “I have always believed in the principle of ‘prosper thy neighbor’ and that sharing is caring” (Malaysia, 2007).

According to Low (2004), the IMT-GT was started by private sector impulses, followed by government and other official support especially in its infrastructure, immigration and other cross border issues that has the distinct advantage of being market-led driven. IMT-GT is the future growth prospect (Kedah, 1994), that will provide ample opportunities for regional co-operation for development (Kedah, 1994; Low, 2004). According to Kedah Development Action Plan (1994), IMT-GT has a potential market of over 20 million people and possesses

considerable complementary in resource endowment, including labor. Kedah as well as Perlis, being a border state, endowed with large land and human resources, has provided a good infrastructure which played an important role in the triangular development between Indonesia, Malaysia and Thailand.

With the implementation of NCER, both Padang Besar and Bukit Kayu Hitam have been recognized for border tourism. Thus, strategies to attract higher-yielding tourists will be complemented by measures to ensure that local communities benefit from increasing tourist spending. Apart from border tourism, other programs highlighted to both areas are on the creation of halal processing centers specializing in processed meat products for export in Padang Besar. In addition to that, with the completion of Ipoh-Padang Besar double-tracking project which has started since March 2007, the project is expected to boost rail travel to the NCER. At the same time, both areas especially Bukit Kayu Hitam has been recognized as a bio-fertilizer cluster that will be the place for R&D center (Malaysia, 2007).

In the same parallel, initiatives provided by the government will be implemented to complement the economic development programs that will help to improve income levels in the Northern Region. This will be done through assisting small-scale rural entrepreneurs by expanding their economic activities whilst improving access to microcredit and financing scheme.

As reported by *The Star* (1999), RM500 million worth of new development projects were given by the state of Perlis in order to turn Padang Besar into a vibrant business centre as well as to change it to a new image. “The state wants the town, which is strategically located on the international border with Thailand, to be developed into one of the growth centers in



Perlis,” stressed Dato Seri Shahidan Kassim after chairing a state executive committee meeting in Kangar. The project involves, among others, the construction of business complexes and other commercial centers, shop houses, a five-star hotel and the setting up of some residential areas.

The next section provides contextual description of Bukit Kayu Hitam and Padang Besar so as to explain the background of the Malay SIEs as well as the importance of these two areas in this study.

### **1.2.1 Bukit Kayu Hitam (Border Town in Kedah)**

Kedah main border town entrance on the Malaysia-Thailand border is Bukit Kayu Hitam. It marks the end of the North-South expressway (Malaysia Federal Route 1), the longest Malaysian road which runs from Johor Bahru, Johor in the south till the border at Bukit Kayu Hitam. The expressway connects Phetkasem Road in Thailand directly (Thailand Route 4)(PLUS, 1996). *Figure 1.1* shows a location map of Bukit Kayu Hitam.

The Bukit Kayu Hitam checkpoint involving Royal Malaysian Customs, Immigration and quarantine checkpoint lies about 800 meters south of the actual border and a duty free shopping complex is located near the border. The checkpoint consists of drive-through immigration and customs lanes. The Thailand checkpoint is called the Sadao immigration checkpoint and is located immediately after the Malaysian-Thailand border in the town of Danok in the district of Sadao, Songkhla Province in Southern Thailand. The checkpoint also handles drive-through immigration and custom facilities, although some of the lanes are converted to handle pedestrian traffic.

### **1.2.2 Business Environment of Malay SIEs at Bukit Kayu Hitam**

Before the Malaysian checkpoint in Bukit Kayu Hitam, on the right side of the road, lays the Arked Majlis Daerah Kubang Pasu in which, it is the location for the Bumiputera Malay SIEs owned shopping outlets. Their retail shops are very narrow and crowded as they have shifted to a new location due to a fire in 2002. As reported by *Utusan Malaysia* (2002), over 50 stalls selling a variety of made-in-Thailand goods such as clothes, kitchen utensils, bedding, toys, bags and jewelry were destroyed by the fire resulted in losses of approximately RM4.3 million. Midway between the Malaysia and Thailand checkpoint is the duty free shopping complex, and also a location for another Bumiputera Malay SIEs shopping outlets. There is also a golf course, known as the Black Forest Golf Club located behind the duty free shopping centre and an army post between the duty free shopping complex and the actual border. All the SIEs who do business at Bukit Kayu Hitam are the Malay ethnic with Malaysian nationality or also known as Bumiputera businessperson.

### **1.2.3 Padang Besar (Border Town in Perlis)**

Perlis main border town entrance on the Malaysia-Thailand border is Padang Besar. Padang Besar is located at the northern part of Perlis and is situated at the border with Songkhla Province of Southern Thailand. It is placed about 35 kilometers northeast of Kangar in Perlis and about 70 kilometers southwest of Hat Yai in Thailand. Similarly, the town which is located in Thailand is also known as Padang Besar, although locals here usually refer to the town as "Pekan Siam" or Siamese town. *Figure 1.1* shows a location map of Padang Besar.

Padang Besar has both a road and rail border crossing into Thailand. The Malaysian checkpoint is located to the north, about 300 meters from the actual border where the

Thailand checkpoint is located. Both the Malaysian and Thai checkpoints have drive-through lanes. Padang Besar owes its importance to being the junction of Malaysian and Thailand railway systems on the western side of the Peninsula. The Padang Besar railway station has Malaysia's only integrated Royal Malaysian Customs, Immigration and quarantine facility for Malaysia and Thailand and rail passengers are processed for exiting Malaysia and entering Thailand (or vice-versa if travelling the other direction) in the station. The Padang Besar railway station in Thailand only serves as a domestic station.

#### **1.2.4 Business Environment of Malay SIEs at Padang Besar**

The Malay SIEs at Padang Besar consists of two groups who are the Bumiputera Malay SIEs and those who arrive from Thailand, or the Thai Malay SIEs, to conduct their businesses here. The businesses range from petty traders selling clothes and shoes, kitchen utensils, to owners of small business selling fruits and fragrant Thai rice. They are located at the two-storey building known as Bazaar Majlis Perbandaran Kangar as well as scattered shop lots surrounding the bazaar. The Thai Malay SIEs have dominated the shop lots after they purchased or leased the site from the Bumiputera owners (Sahat, 2004). Usually the place is busier during the weekend, and the traders provide goods at a bargained price as they are made in factories located just across the border which cuts down the transportation cost. According to Sayuthi (2000) the Thai traders play a role in providing a better trading link with the local suppliers. As for the future of the bazaar, which is closely linked with the future development of Padang Besar, the prospects appear to be bright as more infrastructures is being planned for the town.

The map which illustrates the location of Bukit Kayu Hitam and Padang Besar is shown in *Figure 1.1*.



**Figure 1.1** Map of Bukit Kayu Hitam and Padang Besar

### 1.3 Problem Statement

Academic research in small business is relatively recent (Shepherd & Wiklund, 2005) and the importance of small and micro-businesses is widely acknowledged (Reijonen, 2008). It is explained that scholars are now recognizing that small businesses are essential for entrepreneurial activity, innovation and job creation. Furthermore, it is clear that the entrepreneurial activities of small businesses are related to outcomes of individual small businesses as well as the economy at large. Therefore, they believe that there is also a close relationship between the entrepreneurial activities, growth and performance of small businesses.

The focus of this study is on the entrepreneurial behavior and performance outcome of Malay small-scale individual entrepreneurs (SIEs). According to Azmat and Samaratunge (2009), SIEs form the bulk of informal sector – who range from petty traders to personal service workers like small street vendors, barbers and owners of small shops, and their number keeps on increasing. According to Hashim (2003), to Malays, those people who are involved in the business, be it small, large or medium are called “entrepreneurs”, particularly among those who had operated their own businesses. Therefore, all the hawkers, middlemen and even retailers in the night market, are also called entrepreneurs. Since the term entrepreneur is associated with the ownership status, thus, members of the business that obtain a license and commercialize its own leases to others are also called entrepreneurs.

According to Chell (2008), in order for the entrepreneurs to behave entrepreneurially, they have to engage in a process that creates value. She also includes social and not-for-profit enterprises in her definition of entrepreneurial behavior because of the value created. From the above discussion, it is obvious that the entrepreneurial behavior of the Malay SIEs has already existed as the nature of entrepreneurship embedded in their routine activities. They provide valued goods and services to local community as well as to the local and international tourists. At the same time, they also create employment opportunities to the people within the area (Azmat & Samaratunge, 2009; Reijonen, 2008; Rejab, 1983).

The previous studies on small business, in Malaysia and other countries, among others, focused mainly on the problems faced by the entrepreneurs in conducting and running their businesses such as; financial and family problems, lack of management skill and experience (Abdullah, Hamali, Deen, Saban, & Abdurahman, 2009; Aziz, 2006; Hosseini & McElwee,

2011; Mukhari & Chu, 2010; Reijonen, 2008). Even though there are barriers and severe resistance in handling their businesses, entrepreneurship is still identified as the key business activity which is most likely to lead to the successful economic change for the Malay SIEs. Therefore, it is of the interest of the researcher to understand how these gaps or barriers to entrepreneurial progress in the Malay SIEs can be overcome through their behavior and to examine its relationship with the performance outcome. This is because, it is important to examine their behavior and performance outcome that make them continue to live and stay in the business despite the fact that they are facing various problems, such as financial and family problems.

In addition to that, there are other studies on entrepreneurships in which many researchers have already examined the entrepreneurial behavioral developments within the context of personality traits and personality profile as well as entrepreneurial attitudes; see for example Ong and Ismail (2008), Ndubisi (2007, 2008), Abdullah (2006), Deraman (2005), and Moen, Rahman, Salleh and Ibrahim (2004) as well as Mohamed (1990). Most of these studies usually take into consideration the need for achievement, locus of control and risk taking. According to Chell (2008), the need for achievement and locus of control have dominated the thinking about the nature of established entrepreneur, and propensity to take risk is only assessing the personality of nascent entrepreneurs. Lately, researchers have also studied the concept of entrepreneurial self-efficacy which is considered as a new measure specific to entrepreneurs' trait profile that has been developed only recently; see for example Chell (2008), Barbosa, Gerhardt and Kickul (2007), Luthan and Ibrayeva (2006), Forbes (2005), Chen, Greene and Crick (1998), and Boyd and Vozikis (1994).

However, there are a few studies in relation to entrepreneurial self-efficacy undertaken in Malaysia. Among others are the study by Ishak (2006) on internet users' self-efficacy, and Majid (2005) on business lecturers' self-efficacy. To date, no research within the context of entrepreneurial self-efficacy among Malay SIEs at the border town is observed. Therefore, based on the above concept of entrepreneurial behavior and the importance given to entrepreneurial self-efficacy, it is timely that this research focuses on the development of entrepreneurial behavior, which features the interaction between the entrepreneur, the environment and the behavior itself, as well as to study Malay SIEs performance at the two border towns of Kedah and Perlis; namely Bukit Kayu Hitam and Padang Besar.

#### **1.4 Research Questions**

It is important to ask this question: Do demographic factors and entrepreneurial behavior of Malay SIEs explain the variation in their performance? Therefore, four main research questions for this study are developed as follows;

1. Do demographic factors such as gender, nationality, and level of education have an impact on entrepreneurial behavior?
2. Do environment factors have an impact on entrepreneurial behavior?
3. Does entrepreneurial behavior have an impact on entrepreneurial performance outcome?
4. Does entrepreneurial behavior mediate the relationship between demographic factors and environment factors and entrepreneurial performance outcome?

## **1.5 Research Objectives**

The objectives of the present study are four, which are as follows;

1. To examine the relationship between demographic factors and entrepreneurial behavior.
2. To examine the relationship between environment and entrepreneurial behavior.
3. To examine the relationship between entrepreneurial behavior and entrepreneurial performance outcome.
4. To examine whether entrepreneurial behavior mediates the relationship between demographic factors and environment factors and entrepreneurial performance outcome.

## **1.6 Significance of the Study**

The need to study the behavioral characteristics of entrepreneurs from an objective psychological standpoint especially on the new concept of entrepreneurial self-efficacy in Malaysia is very much needed. This is because, most of the previous studies on entrepreneurial self-efficacy came from abroad which were made by experts in their related fields, viewpoints and biographical statements of involved individuals and other possible sources. For example Barbosa et al. (2007) study on students enrollment into entrepreneurship program at St. Petersburg University (students from Russia, Norway and Finland), Luthan and Ibrayeva (2006) study self-efficacy of entrepreneurs in Kazakhstan and Kyrgyzstan, and Forbes (2005) on New York City's "Silicon Alley" community of internet users.

The previous research on entrepreneurs in Malaysia were basically focused on factors such as gender differences in entrepreneurial traits (Ndubisi, 2007, 2008), personality profiles



(Mohamed, 1990), personality traits (Ong & Ismail, 2008) and entrepreneurial attitudes among youth in Malaysia (Moen, et al., 2004) as well as a few studies on problems faced by Malays SIEs by Mukhari and Chu (2010), Aziz (2006) and Deraman (2005).

Therefore, based on the broader concept of entrepreneurial behavior and special attention focusing on entrepreneurial self-efficacy, need for achievement and locus of control, this research attempts to look into the entrepreneurial behavior framework, which features the interaction between the person, the environment and the behavior itself, and to study Malay SIEs in the two border towns of Kedah and Perlis; namely Bukit Kayu Hitam and Padang Besar, since these two locations are considered very important under NCER for its border tourism.

### **1.7 Contribution to the Study**

The research attempts to highlight that the demographic factors and the environments have differing relationships on entrepreneurial behavior and the entrepreneurial performance outcome, thus would provide useful information to the authority to promote entrepreneurial development program especially in both the border towns of Kedah and Perlis, and generally in Malaysia.

Therefore, it is hoped that the research will help to promote entrepreneurial development among the Malay SIEs through;

1. Updating entrepreneurial development policies tailored to suit the needs of the Malay SIEs in the border area. This is because, the establishment of entrepreneur groups in the border area keeps on growing bigger, and they also play a significant role in the

economy. Therefore, entrepreneurial development programs should take into consideration the different needs among them at the border.

2. Smoothing the work flow of the agencies involved in providing assistance as well as business opportunities to the Malay SIEs around the border area mainly in the form of business support system which is more structured and organized.
3. Assisting Malay SIEs to improve their businesses. Usually, the involvement of Malay SIEs as traders in the business services or retailers is very widespread, but often limited to the micro-businesses or petty traders. In other words, they are not able to compete with other challenging businesses. They need guidance and support to enhance their business establishment in order to compete with other entrepreneurs.
4. Providing advice, counseling and specialized training for existing Malay entrepreneurs and future entrepreneurs. Advice and counseling that is sensitive to the unique circumstances and environment on entrepreneurs in the border is necessary to help them face critical situations, particularly to compensate for their responsibilities within business and family.

### **1.8 Scope of the Study**

This research focuses on individual entrepreneur at the two border towns of Kedah and Perlis; namely Bukit Kayu Hitam and Padang Besar. The individual entrepreneur is the focus because physically they are conducting and running their business there, at the border. The sampling frame is drawn from the list of business owners registered with *Majlis Daerah Kubang Pasu* (MDKP) and *Majlis Perbandaran Kangar*.

## **1.9 Definitions of Key Terms and Variables**

The followings are the definitions adopted for the respective study variables:

### **1.9.1 Malay SIEs**

For the purpose of this research, the word Malay SIEs refer to the Bumiputera Malay SIEs at both *Arked Majlis Daerah Kubang Pasu* and *Bazaar Majlis Perbandaran Kangar* and, the Thai Malay SIEs operating only at *Bazaar Majlis Perbandaran Kangar*.

### **1.9.2 Entrepreneur and Entrepreneurship**

Entrepreneur is a person who has the need to build, create, and operate a business in order to achieve future profits or rewards (Corman & Lussier, 1996).

Entrepreneurship can be defined as the process of creating new and also operating existing business by a special person that has special characteristics such as the need for achievement, willingness to take risks and self-confidence in order to create profit and reward for his or her self (Hatten, 1997; Longenecker, Moore, & Petty, 2000).

### **1.9.3 Environment Factors**

Environment is a natural feature of a place and the general situation the entrepreneurs are in. In this particular study, the border town environment is indicated as predictable environment and intensity of competition.

#### **Predictable Environment**

The term predictable environment refers to the degree of certainty within the environment being faced by the entrepreneurs at the borders such as predictable demand and consumer

taste that are fairly easy to foresee, as well as whether the rate at which the product are getting obsolete in the business is known by the entrepreneurs (Allen, 1999).

### **Intensity of Competition**

The term intensity of competition is used to show the intensity of competition which includes the competition in the product quality within the suppliers, customers, competitors and government agencies (Allen, 1999) as well as the intensity of competition among the entrepreneurs (Miller & Friesen, 1982).

#### **1.9.4 Entrepreneurial Behavior**

Entrepreneurial behavior is the behavior associated with the entrepreneurship. In this study, entrepreneurial behavior is indicated by entrepreneurial self-efficacy, need for achievement and locus of control.

### **Entrepreneurial Self-Efficacy**

Entrepreneurial self-efficacy refers to the strength of a person's belief that he or she is capable of successfully performing the various roles and tasks of entrepreneurship (Chen, et al., 1998) or the roles and tasks of an entrepreneur (Boyd & Vozikis, 1994).

### **Need for Achievement**

Needs for achievement is defined as someone who would prefer being personally responsible for a performance result, because only under such conditions could he or she feel satisfaction from doing something better (McClelland, 1987). It is a motivation to excel and to achieve a goal to a set of standard (Sirec & Mocnik, 2010) and to strive to succeed (Robbins & DeCenzo, 2004).

## **Locus of Control**

Locus of control is the personality attribute that measures the degree to which people believe that they are master of their own fate (Robbins & DeCenzo, 2004), resulting in the acceptance of personal responsibility for the outcomes of his or her abilities and expertise, rather than attributing the cause of events to serendipity, luck, or chance (Sirec & Mocnik, 2010).

### **1.9.5 Entrepreneurial Performance Outcome**

Performance outcome of the entrepreneurs refer to the tangible and intangible incomes, and relates to both performance and reward (Khanka, 2009).

### **1.10 Organization of the Thesis**

The thesis is presented as follows; the first chapter provides a background of the study that incorporates aspects such as background of the study, the identification of research problems, the research questions and research objectives, the significance of the study, the contribution to the study and the scope of the study.

The second chapter presents the review of the past literature where various findings and inputs of the study were reviewed. This chapter also addresses the underlying theory which provides the foundation of the theoretical framework, plus it also presents the research hypotheses.

The third chapter describes the methodology of the research which research design, measurement of variables, the sampling design, the administration of the study and lastly the data analysis method.

The fourth chapter presents analysis of data findings of the study. The test of assumptions and the respondents' characteristics are described. Then it is followed by the modified research framework and restating of the hypotheses after conducting the factor analysis. Finally, the chapter presents the analysis of variance, correlation and multiple regression analysis in order to test the hypotheses as well as to answer the research questions and research objectives.

The final chapter or chapter five discusses the findings of the research followed by the conclusion of the study. Further research in this area is also recommended and suggested in this final chapter.

### **1.11 Summary**

This chapter discusses the background of the study as well as presenting the issues and problems of the Malay SIEs and also highlighting the gap which had prompted the current research to be conducted. The chapter also identifies and put forward the perspective of various research questions and objectives, significance and scope of the study. The next chapter that follows which is chapter two will review the related literature.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides reviews from the previous studies pertinent to the theoretical foundation for the study, the variables and the relationships that are proposed in this study. The chapter begins with a brief definition of entrepreneur and entrepreneurship, followed by a discussion on major theories related to the construct of entrepreneurial behavior and entrepreneurial performance outcome. The following section describes the conceptual framework relevant to the present study and the chapter ends with detailed discussion on all factors and formulation of hypothesis for the proposed relationships.

### **2.2 Definition of Entrepreneur and Entrepreneurship**

The word entrepreneur is derived from the French verb *entreprendre*, which means to undertake, seized from the work of the Frenchmen who organized and managed military and exploration in the early sixteenth century (Jennings, 1994). According to Corman and Lussier (1996), an entrepreneur is a person who has the need to build and create something new and is a special type of individual, having specific characteristics in addition to those necessary to operate a small business.

The standard definition of small medium enterprises (SMEs) provided by Small and Medium Industries Development Corporation (SMIDEC) is shown in Table 2.1. The criteria used in defining SMEs is based on a number of employees and annual sales turnover along with specific definitions for micro, small and medium enterprises (SMIDEC, 2009).

**Table 2.1*****Definitions and Classifications of SMEs***

<b>Industries</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
<b>Manufacturing, Manufacturing-Related Services &amp; Agro-Based Industries</b>	Less than 5 employees,	Between 5 & 50 employees,	Between 51 & 150 employees,
	Annual sales of less than RM250,000	Annual sales between RM250,000 and less than RM10 million	Annual sales between RM10 million & RM25 million
<b>Services Sector including Information and Communication Technology</b>	Less than 5 employees,	Between 5 & 19 employees,	Between 20 & 50 employees,
	Annual sales of less than RM200,000	Annual sales between RM200,00 and less than RM1 million	Annual sales between RM1 million & RM5 million

Source: SMIDEC (2009)

Hashim (2003), defined entrepreneurs as those people who are involved in the business, be it small, large or medium, particularly among those who had operated their own businesses. According to Azmat and Samaratunge (2009), small scale individual entrepreneurs (SIEs) vary from petty traders to personal service workers like small street vendors, barbers and owners of small shops, and their number keeps on increasing. SIEs are sole owned with a maximum of five employees and mostly are labor intensive. Usually SIEs exist in the informal sectors and sometimes it might be or might not be registered by the owner of the enterprise.

Table 2.2 shows the differences between SIEs, SMEs and large companies as highlighted by Azmat and Samaratunge (2009).



**Table 2.2*****The Main features of SIEs***

	<b>Small Individual Enterprises (SIEs)</b>	<b>Small and Medium Enterprises (SMEs)</b>	<b>Large Companies</b>
<b>Formal sector</b>	-	√	√
<b>Informal sector</b>	√	-	-
<b>Brand visibility</b>	-	√	√
<b>Registration</b>	- / √	- / √	√
<b>Tax</b>	-	√	√
<b>Business form</b>	SIEs	SMEs	MNCs
<b>Number of employees</b>	Sole owned or up to a maximum of five employees	Fewer than 250 employees	More than 250 employees
<b>Labor</b>	Labor intensive	Mainly labor intensive	Capital intensive

Source: Azmat and Samaratunge (2009)

Generally, the terms small business owner and entrepreneur are used interchangeably (Hodgetts & Kuratko, 2001; Kuratko & Welsch, 1994), and there is no single definition of a small firm, mainly because of the wide diversity of businesses (Barrow, 2004). However, according to Hodgetts and Kuratko (2001), there is a bit different in the actual development of the firm, whereby entrepreneurial ventures are those for which the entrepreneur's principal objectives are profitability and growth. Therefore, the business is characterized by innovative strategic practices (Hatten, 1997; Longenecker, et al., 2000) and continued growth, and usually seeking rapid growth and immediate profits (Longenecker, et al., 2000). They even may sell their business with large capital gains if they can see an opportunity and assume the risk (Branden, 1998; Ryan, Eckert, & Ray, 1996).

Entrepreneurs are people who take the calculated risks involved in extreme sports. Both have the definite goals and will push themselves to the limit to achieve them, and both have the

utmost awareness of the environment in which they operate and resources they need to succeed (Allen, 1999).

Based on the above discussions, the definition of entrepreneur will be a person who has the need to build, create, and operate a business in order to achieve future profits or rewards. The term entrepreneur used in many points in this research do apply to both small business owners and entrepreneurs as referred to Corman and Lussier (1996) and Hodgetts & Kuratko (2001).

Entrepreneurship and small business management are both processes (Hatten, 1997). He further explained that entrepreneurship involves the startup process, and small business management focuses on running a business over a long period of time. In managing a small business, most of the “entrepreneurship” was done a long time ago, that is, the original innovation and the triggering event that launched the business make way for more stability in the maturity stage of business.

Therefore, entrepreneurship can be defined as the process of creating new and also operating existing business by a special person that possesses or has special characteristics such as the need for achievement, willingness to take risks and self-confidence in order to create profit and reward for his or her self.

### **2.3 Entrepreneur Demographic Factors**

The term gender from previous research approved to be an influence factor to entrepreneurial behavior and entrepreneurial performance outcome. Most frequently, males are perceived as ambitious, confident and practical, while females are more preferably described as affectionate, sympathetic and considerate (Ward & Williams, 1982). Like gender, age also

received significant research attention. In terms of age, it is expected that older entrepreneurs will state higher preferences for each criteria because as they grow older, the possibility of gaining higher academic qualification, more experience, more willingness to accept extra tasks, and better decision making as well as possessing more competencies and rewards will be more compared to younger respondents (Poole & Jenkins, 1998).

A study by Kristiansen and Indarti (2004) on entrepreneurial intention among Indonesian and Norwegian university students found that Norwegian students who were older than 25, had higher scores compared to those who were younger. However, there were no differences found from Indonesian students. They concluded that, entrepreneurial intention was not significantly influenced by age in both countries.

In this present study, the age of entrepreneurs is categorized into two: (1) Less than 25 years old and, (2) More than 25 years old. Therefore, those of more than 25 years old are expected to score the highest preferences for each criterion compared to the younger entrepreneurs (Kristiansen & Indarti, 2004).

A study by Zhao et al. (2005) suggested that efforts taken to increase entrepreneurial activity that were focused on individual level might indeed be worthwhile. Even though in their study gender was not related to entrepreneurial behavior, it was directly related to entrepreneurial intentions such that men were reported higher intentions to become entrepreneurs than women.

A study by Khanka (2009) on the entrepreneurial performance in a less developed region of Assam in India, has found that gender does not matter in the entrepreneurial performance. He

argued that female by nature is less ambitious than male and at the same time, male entrepreneurs mainly run manufacturing enterprises while female entrepreneurs run service-related enterprises which are less risk-prone than those manufacturing enterprises.

However, Khanka (2009) has found that married entrepreneurs perform better than their unmarried counterparts. This is because marriage is related to maturity of the entrepreneurs, and maturity enables entrepreneurs to cope better with business problems and thus perform better. The other reason is that, marriage creates obligation and responsibilities to raise one's need for more income or higher performance.

A study by Clercq, Menzies, Diochon and Gasse (2009) explaining nascent entrepreneurs' goal commitment has shown that age has a positive relationship with goal commitment in which older nascent entrepreneurs exhibit higher levels of goal commitment than their younger counterparts. However, gender and educational levels have no significant relationship.

A recent study by Kariv (2010) on the role of management strategies in business performance, on a Canadian sample of 115 entrepreneurs and an Israeli sample of 118 entrepreneurs, has found that educational level and past managerial experience emerged as significant, with both having a positive effect on business performance. Educational level and past experience emerged as significant suggesting that these have a central role in determining business performance. However, age, gender and nationality were insignificant in affecting business performance.