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## Cultural Background and Firm Performances of Indigenous ("Bumiputera") Malay Family Firms in Malaysia: The Role of Entrepreneurial Orientation as a Mediating Variable

Dr. Fakhrul Anwar Zainol

Faculty of Business Management and Accountancy  
Universiti Sultan Zainal Abidin (UniSZA), Terengganu, Malaysia  
fakhrulanwar@unisza.edu.my

Dr. Selvamalar Ayadurai

Faculty of Business and Law  
University of Newcastle, Australia  
drmalar@cbct.my

### **Abstract**

The research examines entrepreneurial orientation (EO) in Indigenous or Bumiputera entrepreneurs (Malay firms) by taking cultural background as the antecedent. This construct is used to explain the influence of entrepreneurial orientation (EO) and its consequence towards firm performance.

**Design/methodology/approach:** Multiples Linear Regressions (MLR) analysis was conducted to test the hypothesis on surveyed firms selected from the current available list given by MARA (the government agency for Indigenous or Bumiputera SMEs). The specific research question is: Does the relationship between cultural background of the entrepreneur and firm performance is mediated by entrepreneurial orientation (EO)?

**Findings:** In Malay firms, the relationship between cultural background with firm performance was not mediated by entrepreneurial orientation (EO). However, the construct is significant as predictor towards firm performance.

**Practical implications:** This research provides a better understanding of the indigenous entrepreneurs for policy makers, NGOs, business support organizations and the indigenous entrepreneurs themselves particularly in planning or utilizing government programmes.

**Originality/value:** The impact of cultural background towards firm performance observed in Malay firms is unique to the paper. Our studies provided the empirical test in understanding indigenous entrepreneurship in Malay firms in Malaysia towards developing a more holistic entrepreneurship theory.

**Keywords:** Entrepreneurial Orientation (EO), Cultural Background, Indigenous Entrepreneurship

## **Background of the Study**

Entrepreneurial Orientation (EO) has recently been recognized as one of the most important factors for a firm's growth and profitability. Research has shown that high growth correlates with a firm's entrepreneurial orientation (Stevenson & Jarillo, 1990). Hence, growth can be associated with innovativeness, pro-activeness and risk-taking behavior of the firm, which refers to an entrepreneurial orientation (EO) dimension. The correlation between the entrepreneurial orientation (EO) of the firm and its performance has been widely discussed, conceptually (Covin & Slevin, 1991); Lumpkin & Dess, 1996) and empirically (Wiklund & Shepherd, 2005; Covin & Slevin, 1989; Lumpkin & Dess, 2001). However, a lot of questions remain unresolved (Moreno & Cassilas, 2008). Given the competitive conditions faced by firms in today's global economy, EO-performance relationship is multidimensional constructs as suggested by Lumpkin and Dess (1996). Further research to redefined measurements, exploring the underlying processes related with entrepreneurial activity and recognizing multidimensional nature of entrepreneurial orientation (EO) will contribute to the greater understandings of entrepreneurial orientation (EO) and its relationship towards firms' performances.

Family firms play a significant role in a country's economic growth through new business venture creation and expansion of existing firm. Some statistics show that these types of businesses contribute up to 64% of the U.S gross domestic products (GDP) and occupy 62% of its' workforce (Astrachan & Shanker, 2003). Globally, half of the world's workforce and over half the world's GDP are contributed by family businesses (Morck & Yeung, 2003; Heck & Stafford, 1999). For instance, family businesses construe 84.4% of all manufacturing companies in Germany in 2002 (Kayser & Wallau, 2002). Furthermore, a report by Anderson and Reeb (2003) stated that family businesses represent 34% of the companies listed on the Standard & Poor's 500. Specifically, 18% of the outstanding equity in those firms is owned by the founding family. A majority of the firms are extremely big. These include large firms such as Walmart, Sainsbury, Parmalat, Fiat, BMW, Betchel, Samsung, Carrefour, and Gallo.

Besides identifying the influence of culture on entrepreneurial orientation (EO), Lindsay (2005) described research on "indigenous entrepreneurship" as being at a developing stage. "Indigenous" can be defined as the original owners of a country's resources. This suggests another perspective of looking at what is offered by mainstream entrepreneurship theory and further study is needed to understand it. Most research into entrepreneurial attitude focuses on non-indigenous entrepreneurs even though there are more than 500 million indigenous people in the world (McCline, Bhat, and Baj 2000). Indigenous entrepreneurship is increasing rapidly as indigenous people attempt to improve their socioeconomic status and personal lives. Culture is important to Indigenous people (Anderson 1999; Anderson et al., 2004; Foley 2003; Hindle and Lansdowne, 2005) and culture affects attitude (Baskerville, 2003) including their tendencies toward new venture creations. In relation to that, a lot of programmes have been organized by various governments and government bodies to help the indigenous entrepreneurs which include the launching of political reforms and economic development and entrepreneurship programs, training and educational activities (Morrison et al, 2006; Manyara and Jones, 2007). Besides that, the programmes have been supported by the establishment of state institutions, training centres, as well as private consultancy firms that enhances the development of human resource management and entrepreneurial activities.

Although the study of entrepreneurial orientation (EO) on family firms has been a growing concern in recent years, gaps in the canon of literature still remain. Therefore, this research aims to fill this research gap by analyzing the antecedent and consequence of entrepreneurial orientation (EO) in Malay family firms in Malaysia. This research examines entrepreneurial orientation (EO) in Indigenous entrepreneurs (Malay family firms) by taking cultural background as an antecedent. This construct is used to explain the antecedent that influences the entrepreneurial orientation (EO) of the firms and its consequence towards firm performance.

### **Problem Statement**

Entrepreneurial orientation (EO) has been a topic of much debate in management and entrepreneurship literature for years. Entrepreneurial orientation (EO) of a firm is defined as firm that involves in technological innovation (i.e innovativeness), undertakes risky ventures (i.e risk taking), and pursue opportunities proactively (i.e proactiveness) (Miller, 1983). Furthermore, a firm should consistently be taking risks, be innovative and be proactive in order to be labeled as “entrepreneurial” (Miller, 1983). Past literatures have shown a direct correlation between entrepreneurial orientation (EO) and firm performance (e.g Keh, Nguyen, and Ng, 2007; Lee, Lee, and Penning, 2001; Lumpkin and Dess, 1996; Zahra and Covin, 1995). However, to date, the main debate remains within the area of entrepreneurial orientation (EO) research (Covin, Green, and Slevin, 2006). Lumpkin and Dess (1996) have drawn attention to the complexity of entrepreneurial orientation (EO) on performance relationship and suggest that the relationship between entrepreneurial orientation (EO) and performance relationship is context specific. In other words, the degree of the relationship between entrepreneurial orientation (EO) and firm performance is influenced by external environment as well as internal organizational processes. To date, entrepreneurial orientation (EO) research has been conducted mostly in the context of the United States or other developed countries and has rarely been conducted in emerging economies.

Looking at the Malaysian context, the promotion of Indigenous or Bumiputeras (Malay) into trade and industry is often seen as a socioeconomic initiative engineered by the Malaysian government. The respective policies under the New Economic Policy (NEP) and National Development Policy (NDP) sought to enhance and intensify the participation of Indigenous or Bumiputera economic and business ventures. The NDP and its predecessor, the NEP, are public policy instruments formulated to promote Indigenous or Bumiputera general economic well-being which was incorporated in the Malaysian government’s five yearly economic plans since 1970. The NEP which lasted for twenty years, however, did not meet its objective of managing 30% economic equity shareholding by Indigenous or Bumiputera. According to the Outline Perspective Plan II (OPP II), 1991-2000, Indigenous or Bumiputera ownership of share capital, which was 2.4% in 1970, had increased to only 20.3% in 1990 (Seventh Malaysia Plan, 1996). There is a shortfall of the target by almost 10%. However, non-Indigenous or non-Bumiputera (mainly Chinese) ownership of share capital had increased from 32.3% in 1970 to 46.2%. In 1995, the Indigenous or Bumiputera equity ownership has marginally increased to 20.6%.

The NEP, expired in 1990, was replaced by the NDP which continued the main policies of the NEP. Although called by a different name the NDP seek to provide continuity of policies espoused by the NEP (with two primary agenda of eradication of poverty and restructuring the society so that no particular race is identified with economic function). The NDP however, is more specific in providing emphasis for the creation

of an Indigenous or Bumiputera Commercial and Industrial Community (BCIC) which promotes Indigenous or Bumiputera involvement in business and commercial sector.

However, it was widely acknowledged by the government and the Indigenous or Bumiputera Business leaders and intellectuals that the policies have not succeeded as targeted. There were even fears among the community that, whatever little that has been achieved, after more than 20 years, may be lost again. Facts and figures from the Seventh Malaysia Plan seemed to suggest that the Indigenous or Bumiputera economic achievement is not a lasting proposition based on current policies. It can probably be argued that more than public instruments are required to help overcome Indigenous or Bumiputera economic malaise, and for funds spent, for results that do not compensate the efforts of the government policies in increasing Indigenous or Bumiputera economic status. It was reported that from 1966 to 1990, MARA (Council of Trust for the Indigenous or Bumiputera of Malaysia) provided about RM600 million loans to an estimated 108,000 small and medium-sized business enterprises Omar (2006). Further information revealed that only 10% of the borrowers were seriously committed to repaying back their soft loans while the rest were in arrears or avoided paying back altogether.

Inevitably, public policies that have been set in place to foster Indigenous or Bumiputera business participation in the Malaysian context have seen a limited success. Could it be a problem of the Indigenous or Bumiputera community does not have the economic and cultural structures required for business?

The issue of entrepreneurial orientation (EO) in Indigenous or Bumiputera family firms is a relevant and under-researched topic and the antecedent of the entrepreneurial orientation (EO) have an effect on the firms' performance. As entrepreneurial orientation (EO) contributes to innovation in the firms, there is reason to suggest that there could be a positive relationship with firm performance.

### ***Literature Review***

Entrepreneurial Orientation (EO) has been acknowledged as a determinant for a firm's growth and profitability. Certain studies relate high growth with a firm's entrepreneurial orientation (Brown et al., 2001; Stevenson and Jarillo, 1990). High growth would be a result of innovativeness, pro-activeness and risk-taking orientation by the firm, the scopes which refer to an entrepreneurial orientation (EO). In current business environments, where product and business model life cycles are shortened such characteristics are positively associated with better performance, (Hamel, 2000). Thus, entrepreneurial orientation (EO) would be taken into consideration as a key ingredient for the success of a firm.

While a firm's entrepreneurial processes might help the chase of new entries opportunities that enhance its performance, the adoption of a strong entrepreneurial orientation (EO) is considered necessary but insufficient for wealth creation by new ventures (Covin & Slevin, 1989; Ireland, Hitt, & Simmon, 2003; Lumpkin & Dess, 1996). In order to understand the conditions under which an entrepreneurial orientation (EO) enhances firm performance, a contingency perspective that emphasizes the importance of fit among a firm's strategic posture and other constructs of interest is needed (Lumpkin & Dess, 1996). In fact since the work of Miller (1983), previous entrepreneurship literatures have instead focused on the impact of environmental, strategic, and organizational contingencies on firm level entrepreneurship (Zahra, Jennings & Kuratko, 1999). Miller (1983) suggests the researchers, as they study firm-level entrepreneurship, to consider unique characteristics of different types of firms. A growing literature argues that family firms are very different from other firms due to the

unique characteristics among individual family members, the family systems and the business system (Tagiuri & Davis, 1996). Hence, recognizing the factors that enhance or constrain entrepreneurial orientation (EO) and performance represents an important research agenda (Lee, Lee, & Pennings, 2001).

In this way, Kellermanns et. al (2008) in their concluding remark highlighted the importance of entrepreneurial orientation (EO) study of family firms in order to understand why some family firms grow and some others are making no growth at all. Their study suggests that the entrepreneurial orientation (EO) of entrepreneurs is a key determinant of employment growth in family firms. Despite being recognized as the vital contributor of economic development, family firms still remain under-researched (Goffee, 1996). Since the 1980s one of the major weaknesses of many studies of small businesses is their “global” nature, i.e seeing all firms alike, even though obvious differences existed among them. In addition, during that time, the family firm was observed as inherently flawed; its survival depends on the replacement of family members by “professional management as quickly as possible” (Levinson, 1971). In the organizations literature, it was treated as an aberration (Davis & Stern, 1980). Family business became a field of study in its own right only recently (Lansberg et al., 1988). Today, the study of family businesses has become a major area of investigation among researchers.

Besides identifying the influence of culture on entrepreneurial orientation (EO), Lindsay (2005) described research on indigenous entrepreneurship as at a developing stage. Indigenous can be defined as the original owners of a country’s resources and this would offer something different with mainstream entrepreneurship theory and further study is needed to understand it. Although there are more than 500 million Indigenous people in the world, most research into entrepreneurial attitude focuses on non-Indigenous entrepreneurs (e.g McCline, Bhat, and Baj 2000; Robinson et al., 1991). Indigenous entrepreneurship, however, is increasing as Indigenous people attempt to achieve self-determination and improve their socioeconomic circumstances. Culture is important to Indigenous people (Anderson 1999; Anderson et al., 2004; Foley 2003; Hindle and Lansdowne, 2005) and culture affects attitude (Baskerville, 2003) including attitude toward new venture creation and development. In relation to that, a lot of programs have been organized by the various governments to help the indigenous entrepreneurs.

In addition, culture is an important element in any discussion on entrepreneurship because it relates to the attitudes of individuals towards the initiation of entrepreneurship (Vernon-Wortzel and Wortzel, 1997). Each civilization generates its own model of entrepreneurship according to the specific needs of the host society; however, entrepreneurship has also been explained consistently using terms such as innovative, holistic, risk-taking and coordinating ways of orientation (Morrison, 2000). Some cultural traditions may encourage, or deter, entry into entrepreneurship. Thus, it is suggested that the culture of societies and the characteristics of its people will persuade or dissuade the degree in which entrepreneurship is established.

The concept of cultural difference has been interpreted by some as a powerful determinant of regional or national variation in the supply of entrepreneurship (Davidson and Wiklund, 1997). Yet empirical research on the issue is inconclusive and relatively scarce although there have been attempts to explain large-scale economic development from a sociological perspective, particularly, with respect to indigenous groups (McClelland, 1961; Weber, 1930). Previous research has argued that societies holding different cultural values experience different levels of entrepreneurial activities (Begley and Tan, 2001; Lee and Paterson,

2000; Morrison, 2000; Mueller and Thomas, 2000; Nakata and Sivakumar, 1996; Thomas and Mueller, 2000; Tiesen, 1997; Shane, 1992). The relationship is not causal and simple, but instead very complex. In fact, when applied to indigenous groups, literature on this subject is generalist in nature and often appears paternalistic to the indigenous researcher.

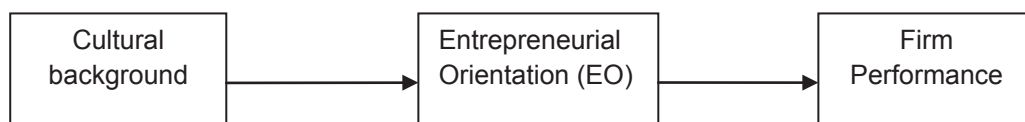
The relationship between entrepreneurial orientation (EO) and firm performance has become the main subject of interest in past literatures which are concerned with the positive implications that entrepreneurial processes have on firm growth and performance (Lumpkin & Dess, 1996; Wiklund, 1999; Zahra, Jennings, & Kuratko, 1999). Entrepreneurial orientation (EO) is regarded as inevitable for firms that want to prosper in competitive business environment. However, Lumpkin & Dess (1996) suggest that the positive implications of the entrepreneurial orientation (EO) on firm performance are context specific and may vary independently of each other in a given organizational context.

Although past literatures have discussed entrepreneurial orientation (EO) and family firms from various angle, as far as the social sciences as concerned there are still gaps in the literature. In fact, most of the works presented discuss the antecedents of the entrepreneurial orientation (EO) or the consequence of entrepreneurial orientation (EO) on firm growth/performance. The antecedents and consequences of entrepreneurial orientation (EO) have rarely been discussed. This research therefore, approaches the question of the nature of Indigenous entrepreneurship from the perspective of entrepreneur's cultural background. This construct is used to explain how it influences entrepreneur orientation (EO) and associated firm performance.

## ***Theoretical Framework, Research Question and Hypothesis***

### ***Theoretical Framework***

Due to mixed results produced from the past literatures discussed above, it is the basic premise of this research to examine possible antecedent of entrepreneurial orientation (EO) and its consequence in Malay family firms in Malaysia. The conceptual framework depicted in Figure 1 below will fill the gaps from the previous works done by earlier researchers in this area:



***Figure 1: Theoretical Framework***

The independent variable of this study is cultural background, and the firm performance is the dependent variable.

### ***Research Question***

Based on the gaps and unresolved questions in the past literatures, this research examines the antecedent of entrepreneurial orientation in Malay family firms and its consequence on the firm performance by answering the following research question:

***“Does the relationship between cultural background of the entrepreneur and firm performance is mediated by entrepreneurial orientation (EO)?”***



## Hypothesis

Since the discussion on past literatures showed mixed results, this study posits the hypothesis to be:

H1: The relationship between cultural background of the entrepreneur and firm performance is mediated by entrepreneurial orientation (EO)

H2: *Entrepreneurial orientation (EO) of the Malay family firm will be positively related to the firm performance*

## Research Design and Methodology

### The Population and Sample

The population and sample that have been used for hypothesis testing were the founder/owner/manager of the small and medium enterprises (SMEs) which drawn from the services and manufacturing sectors in Kuala Lumpur/Selangor (Klang Valley) through a postal survey. The surveyed firms were selected from the current available list given by MARA (the government agency for Indigenous or Bumiputera SMEs ) as at August 2009. The clients must meet the following criteria:

- a) The contact person is the founder/owner/CEO/BOD /manager of the Malay family firm as a unit of analysis in this study
- b) The firms must meet the criteria of the definition of SMEs in Malaysia for both sectors. The definitions of SMEs by SMIDEC (Small Medium Industries Development Corporation), a government agency were adopted for this study as follows (SMIDEC, 2009):

An enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in the table below.

Table 1: SME Category

SME Category	Micro-enterprise (Mic)	Small enterprise (Sml)	Medium enterprise (Med)
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50

- c) The firm must have been in operation at least for 1 to 3 years to make sure that performance comparisons can be made within the firms as well as between the competitors. This study will be based on data for SMEs, active during 2007/2008, 2006/2007 and 2005/2006 financial years which provided complete responses to the variables examined.
- d) Besides that, the family firm criteria was identified via questions on whether the ownership and management control are dominated by one family as well as whether they consider the business as a family business. This has been achieved when respondent indicated "yes" or "no" response to the above two conditions.

Stratified proportionate random sampling technique was used to get the amount of samples in this study. Sekaran (2005) postulated that this technique is under probability sampling whereby population is first

divided into meaningful segments, thereafter subject are drawn in proportion to their original numbers in the population. The advantages of using this technique are most efficient among all probability designs and all groups are adequately sampled and comparisons among groups are possible.

### **Data Collection**

The basic research design utilized for this study was a survey design. This study will stress on data obtained through primary data collection. The collection of primary data was accomplished through the use of a mail survey instrument. This instrument was used to collect information from questionnaires answered by the founder/owner/manager of the firms who are qualified to answer all the questions given.

To maximize the data accuracy and reliability, the study used Huber and Power's (1985) guidelines on how to get quality data from single informants. Entrepreneurial orientation (EO) is normally viewed from the perspective of the CEO (Covin and Slevin, 1989; Wiklund and Shepherd, 2003), and CEOs are typically the well-versed persons regarding their overall business strategies and situations (Zahra and Covin, 1995). Likert scales were used to minimize executive response time and effort (Knight and Cavusgil, 2004). A five-point scale has been adopted because research indicates that a five-point scale is as good as any, and that an increase from five to seven or nine points on rating scale does not improve the reliability of the ratings (Elmore and Beggs, 1975). Using mail survey as a methodology instrument is not only cost effective but it is also appropriate for a relatively large sample. The questionnaires were mailed to the respondents and we managed to get 162 responses from 520 questionnaires sent out, which made up 31.15% response rate.

### **Results**

#### *Descriptive Analysis*

A descriptive analysis was performed to provide the general background of respondents and companies that have participated in this study. Most of the respondents represented mainly by female constituted 60.4% compared to 39.6% male respondents. Respondent's level of education primarily represented by 63% secondary school level (SPM/STPM) and the rest were 18.5% diploma level, 10.5% degree level, 1.9% master level and 6.2% professional qualification level. Age bracket of respondents comprised of 13.6% below 30 years old, 29.6% below 40 years old and 56.8% above 40 years old (40 years old – 65 years old). Most of the respondents were founder/owner/CEO/BOD of the firm i.e. 79.6% and only 20.4% were managers.

Firm's type of SMEs sectors, 78.4% were services, 6.2% were Information & Communication Technology (ICT), 5.6% were manufacturing, 4.9% primary agriculture, 4.3% manufacturing related services and 0.6% agro-based. Most of the firms operated between 1 to 3 years, i.e. 59.3% and 40.7% operated more than 3 years. Majority ownership, 98.1% was Malay Bumiputeras (Indigenous) and 1.9% was other Bumiputeras (Indigenous). Majority of the firms i.e. 96% described their firms as family business where ownership and management control by one family.

Annual Sales Turnover (RM) comprises of 54.3% less than RM250,000, 24.1% RM250,001 – RM1,000,000 and 21.6% above RM1,000,000.00. Number of full time employees employed by the firms indicated 84.5% have employees less than 5 employees, 11.7% 6-19 employees, 3.1% 20-50 employees and 0.7% 51-150 employees.

### Factor Analysis

A factor analysis was conducted on 19 items according to the variables grouping proposed in the theoretical framework. The results of the principal components analysis are presented in Table 2-4 below and, according to the 'eigenvalue > 1' rule, all factors are significant and it explains 59% - 71% of the total variance in the three items. The results shows that the Kaiser – Meyer – Olkin (KMO) measure of sampling adequacy at the range of 0.79 – 0.89, indicated that the items were interrelated and shared common factors.

*Table 2: Factor Analysis for Cultural Background*

	Component	
	1	2
To turn a new idea into businesses is an admired career path in Malay culture	.768	
Malay people tend to greatly admire those who start their own businesses	.762	
Creative thinking is viewed as a route to success in Malay culture	.721	
Entrepreneurs are admired in Malay culture	.708	
My family would think that it is a very good idea that I start my own business		.667
If I started a new business, my family members will help me to succeed		.604
If I started a new business, some members of my family would work with me		.532
<b>Eigenvalues</b>	<b>3.19</b>	<b>1.31</b>
<b>Cumulative Variances Explained (%)</b>	<b><u>45.58</u></b>	<b><u>64.25</u></b>
<b>KMO</b>	<b>.77</b>	
<b>Bartlett's Test of Sphericity:</b>		
<b>Approx. Chi-Square</b>	<b>360.31</b>	
<b>Sig. (p)</b>	<b>.0001</b>	

Table 3: Factor Analysis for Entrepreneurial Orientation (EO)

	Component 1
In dealing with competitors, my company typically responds to actions which competitor's initiate	.819
In general, the top managers of my company have a strong tendency for low risk projects (with normal and certain rates of return)	.812
In dealing with competitors, my company typically seeks to avoid competitive clashes, preferring a "live-and-let-live" posture	.805
My company has marketed no new lines of products or services in the past three years	.753
In general, the top managers of my company believe that owing to the nature of environment, it is best to explore it (what is it referring to) gradually via cautious, incremental behavior.	.753
In dealing with competitors, my company is very seldom the first business to introduce new products or services, administrative techniques, operating technologies etc.	.747
Changes in product or service lines in my company have been mostly a minor nature in the past three years	.742
The top managers of my company favour a strong emphasis on the tried and true products or services instead of on R&D, technological leadership and innovations	.718
<b>Eigenvalues</b>	<b>4.73</b>
<b>Cumulative Variances Explained (%)</b>	<b>59.18</b>
<b>KMO</b>	<b><u>.890</u></b>
<b>Bartlett's Test of Sphericity:</b>	
<b>Approx. Chi-Square</b>	<b>682.35</b>
<b>Sig. (p)</b>	<b>.0001</b>

Table 4: Factor Analysis for Firm Performance

	Component 1
Profit growth before tax	.867
Sales growth rates	.852
Market Share	.825
Overall performance	.823
<b>Eigenvalues</b>	<b>2.84</b>
<b>Cumulative Variances Explained (%)</b>	<b>70.89</b>
<b>KMO</b>	<b><u>0.825</u></b>
<b>Bartlett's Test of Sphericity:</b>	
<b>Approx. Chi-Square</b>	<b>289.76</b>
<b>Sig. (p)</b>	<b>0.0001</b>

### Reliability Analysis

The reliability test was conducted on the variables to check for the internal consistency of the measurement instrument. The Cronbach's alphas for all variables scales were in the range of 0.74 to 0.90, which was well above the minimum accepted reliability of 0.60 as suggested by Sekaran (2003) (Table 5). At this stage, all variables were kept for further analysis.

Table 5: Reliability Analysis for all variables

Variables	Number of Items	Cronbach's Alpha
Cultural Background	9	.74
Entrepreneurial Orientation (EO)	8	.90
Firm Performance	4	.86

### Multiple Linear Regression (MLR) Analysis

A multiple linear regression (MLR) analysis was conducted to test H1 and H2 simultaneously. The results of the analysis are as shown in Table 5. A test on normality or randomness of residuals through the histogram of regression standardized residuals and normal p-plot of standardized residuals seems to indicate a non-violation of the assumption and appropriateness of using MLR as the method of analysis.

Table 6: MLR Results matrix

Component	Firm Performance	Entrepreneurial orientation (EO)	Firm Performance
	Model 1 (p-value)	Model 2 (p-value)	Model 3 (p-value)
1- Cultural Background		.56	.013
2- Entrepreneurial orientation (EO)	.01		
<i>R square</i>	.08	.002	.038
<i>Adjusted R square</i>	.08	-.004	.032
<i>F</i>	14.52	.345	6.30
<i>t</i>	3.81	-.587	2.51
<i>b</i>	.23	-.068	.225
<i>Beta</i>	.29	-.046	.195
<i>Std Error</i>	.06	.116	.09

In order to test mediation effects of the hypothesized relationship, we tested three models. According to Kenny and colleagues (Baron & Kenny, 1986), mediation effects can be claimed if three conditions are met: (1) the independent variable significantly predicts the dependent variable; (2) the independent variable significantly predicts the mediator variable; and (3) when the dependent variable is regressed on both the mediator and the independent variable, the mediator significantly predicts the dependent variable, while the predictive utility of the independent variable is reduced. The correlation between the mediator and the

dependent variable is not sufficient evidence of mediation because both may be caused by the independent variable. According to Kenny et al. (1998), only Condition 2 and Condition 3 are essential for demonstrating mediation effects.

In Model 1, we regressed entrepreneurial orientation (EO) onto firm performance. There is a significant positive relationship between entrepreneurial orientation (EO) and firm performance, hence supporting H2 ( $t = 3.81$ ;  $p < .05$ ;  $b = .23$ ), thus providing initial partial support for hypothesis 1. To assess full or partial mediation of the hypothesized relationships, we tested two more models. First, we regressed independent variables and dependent variable. The relationship between cultural background and firm performance (Model 3) indicates significant relationship ( $t = 2.51$ ;  $p < 0.05$ ;  $b = .225$ ). The relationships met the Condition 1 of mediation effects as suggested by Kenny et al. (1998). In addition, the beta value estimates seem to indicate the cultural background as an important predictor of firm performance (beta of 0.195).

Secondly, we regressed cultural background (Model 2) onto entrepreneurial orientation (EO). The relationship between cultural background and entrepreneurial orientation (EO) found to be insignificant ( $t = -.587$ ;  $p > 0.05$ ;  $b = -.068$ ). Thus, this condition suggested that there is inexistence of mediation effect on the hypothesized relationship under this study since Condition 2 was not met (Kenny et al., 1998). In other words, entrepreneurial orientation (EO) in this study did not mediate the relationship between independent variable (cultural background) with dependent variable (firm performance). Hence, the test for Condition 3 is not needed for further analysis.

### **Discussion**

Our study provided the empirical test in understanding indigenous entrepreneurship in Malay family firms in Malaysia towards developing a more holistic entrepreneurship theory as suggested by Lindsay (2005). It also inculcated multidimensional constructs of entrepreneurial orientation (EO) – performance relationship as proposed by Lumpkin and Dess (1996). They suggested alternative models such as moderating effects, mediating effects, independent effects as well as interaction effects for testing the entrepreneurial orientation (EO) – performance relationship.

Contrary to expectations, we did not find a significant relationship of mediation effects of entrepreneurial orientation (EO) with cultural background on firm performance. It is possible that this may be a unique finding for bumiputeras or indigenous family firm specifically Malay family firms in Malaysia.

Our findings pertaining to cultural background showed insignificant relationship towards entrepreneurial orientation (EO) which suggests some possible explanations. Even though past research has highlighted that different cultural values that are held by certain societies experience different levels of entrepreneurial activities (Begley and Tan, 2001; Lee and Paterson, 2000; Morrison, 2000; Mueller and Thomas, 2001), we can see that this relationship is not a simple one. In fact, it is a rather complex relationship. In particular, when referring to indigenous groups, literature on this subject is very general. Thus, the study of indigenous entrepreneurship is very context specific towards the indigenous group which would explain why there is no relationship in the hypothesis in this study.

In a society which is concerned with status, the Malays tend to be conscious about the opinions of others regarding their actions and appearances. This consciousness will consequently make them less inclined to share their opinions openly with others. The status consciousness of the Malays also make them “malu” or

shy to socialize with people of higher status for example, a commoner with nobility, students with teachers and villagers before officials (Popenoe, 1970). This concept of “malu” or shy in Malay society is seen by many scholars as the reason why there is a lack of progress among them (Mohamad, 1970; Popenoe, 1970; Md. Said, 1974). In this respect, the Malays are seen to be passive and not willing to venture into new areas as well as taking a long time to take action for fear of making a mistake. They are also said to have lower self-esteem which is not conducive for their economic and social developments.

Besides that, Malay life is very much governed by their “adat” or customs and religion. The Malays live in a communitarian society which believes in the need to preserve their cultural identity mainly through the preservation of their “kampong” or village lifestyle. As a communitarian society, the Malays place a high priority on the importance of working and cooperating with one another. By nature, the Malays are a peace-loving people; they abhor confrontation and are well known for their “adat adat kehalusan” or subtle practices in their dealings with others. The Malays also emphasize on the need to “berbudi” or to render unsolicited help and the value of giving back or “membalas budi”. These values are so prominent among the Malays that their social status is mainly determined by how much “budi” they have provided to their society more than by their individual achievements and wealth.

In this regards, the study by Md. Said (1974) attempts to illustrate that the Malay traditional social structure inhibits entrepreneurial development. However, the study suffers from a lack of convincing data. Relying on the secondary sources, this study is merely descriptive; it lacks depth and contributes little to the advancement knowledge in this field. On the other hand, another study by Popenoe (1970) conclude that successful Malay entrepreneurs came mainly from upper class families and were different from traditional Malays in terms of education, marriage, travelling opportunities, and associations and relationships with the Chinese. The study also finds that it was very important for Malay entrepreneurs to cooperate with and establish relationships with non-Malay businesses partners, in particular, Chinese entrepreneurs. Both studies by Md. Said (1974) and Popenoe (1970) give some possible explanations on the inexistence of the relationship in this study.

Our hypothesis relating to entrepreneurial orientation (EO) and firm performance received significant result. This is parallel with previous studies that indicated entrepreneurial orientation (EO) has a direct or indirect impact towards firm performance in various contexts (Zahra, 2008; Kellermanns et al., 2008). Indeed, our findings show that cultural background is the predictor of firm performance.

As any other research, a few limitations of our study should be noted. First, the study only examined a single service and manufacturing of SMEs family firm in Klang Valley only. While most of the Malay population is located outside the Klang Valley and the potential moderation by urban modernization as well as highly competitive environment, are factors that may limit the generalization of the results.

The main sources of the study are perceptual data provided by one person from each organization, particularly the business owner, founder, CEO, company president / chairman or general manager of the family business. In viewing their organization and environment, there are tendencies that individual managers have their perceptual biases and cognitive limitations. Normally, the family business owners see their businesses as an extension of his/her personality intricately bound with family needs, relationships, and desires (d’Amboise and Muldowney, 1988). Since objective data is difficult to acquire from small family

businesses (Covin and Slevin, 1989), future research should consider to design or use objective data to increase reliability and validity in the analysis.

Another limitation could be in the dependent variable measurement of the firm's performance. The measures used are related to the areas of sales growth rates, market share, profits after taxes and overall performance. There may be other measures or dimensions that are more suited to measure a firm's performance.

### **Conclusion**

It shows that an entrepreneurial orientation—the propensity for a firm to be innovative, risk-taking and proactive—has a direct relationship with the firm performance of a firm. Business owners / managers must seriously think about implementing policies and procedures to promote an entrepreneurial orientation (EO). Porter (1996) proposes that innovation, risk taking, and proactiveness are important mechanisms to ensure a firm's survival and performance.

The findings of the study disclose that bumiputera or indigenous Malay entrepreneurship differs slightly from the conventional Western concepts of entrepreneurship. The differences are contributed by the background of the Malays as a communitarian society of Muslims. In addition, it is a well-known fact that the Malays are still divided along class lines and status conscious (Hamidon, 2009). It is doubtful if Western models of entrepreneurship are totally suitable for the development of Malay entrepreneurship in Malaysia. By the way, there should be efforts to promote ideologies that are culturally inclined to the Malays and by which appropriate success indicator can be measured.

The study also reveals that to develop an entrepreneurship culture on a historically agrarian society, like the Malays, is a challenging and demanding task that requires time and relentless efforts. Thus, current efforts and initiatives by the government in developing the Malay entrepreneurs must be allowed to continue. The conclusion reached by this study demonstrate that Malay entrepreneurs are not hindered by Malay entrepreneurial developments but by misconceptions (i.e of faith, money etc) as well as lack of knowledge in financial management.

Finally, Malay entrepreneurship is still lacking behind the Chinese whose domination of the country's entrepreneurial activities keeps improving. The possible explanation here is that a "dependency" mentality that inhibits initiatives has been cultured in community that receives government aided programs / assistances. On the other hand, a community who does not receive government aided programs / assistances such as the Chinese, are more likely to act more cohesively and proactively, and are likely to be successful in the entrepreneurial venture. It also argued that government privileges and assistance to promote Malay entrepreneurship do not contribute much in terms of enhancing entrepreneurship culture and business competitiveness. In fact, these relative privileges and assistance have conversely made the Chinese more determined to fight these perceived injustices and focus on growing their businesses competitively.



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## Confucian DNA: The Replication of Traditional Philosophical Traits and Characteristics in Chinese Entrepreneurs – A Shandong Province Survey and Analysis

Professor Zhao Wei

University of Jinan, Jinan, PR China

zhaowei7312@163.com

Mike Turner

Graduate School of Management, La Trobe University,

Melbourne, Australia

michael.turner@latrobe.edu.au

Doctor Richard Pech

Graduate School of Management, La Trobe University,

Melbourne, Australia

r.pech@latrobe.edu.au

Professor Geoffrey Durden

Graduate School of Management, La Trobe University,

Melbourne, Australia

g.durden@latrobe.edu.au

### **Abstract**

This study profiles Chinese entrepreneurs based in the Shandong Province, PR China and researches their values and characteristics in relation to 2000 year old Confucian teachings.

This paper highlights the importance of the Confucian doctrine critical to the business structure and activity of Shandong entrepreneurs. In adopting Confucianism the entrepreneurs create an atmosphere of harmony, co-operation and trust that allows businesses to grow and prosper.

Narratives from respondents provide insights into the contribution of Confucianism to their business and organizational success while demonstrating the importance learning and knowledge as a Confucian concept brings to their entrepreneurship development. Interaction between entrepreneurs and the sharing of knowledge and ideas adds a further hint of the Confucian influence on the respondents.

**Key words:** entrepreneurship, entrepreneurs, Confucianism, characteristics and traits

## **Introduction**

China boasts a unique culture where tradition plays a central role in society and business. In recent years, against the tide of traditional influence, China has achieved significant economic growth in a slowing global economy (Bristow, 2009). China's development has been brisk both socially and economically with the adoption of a free market economy leading to an escalation in the number of Chinese entrepreneurs contributing to growth.

Under the Schumpeterian growth model (Acs, et al, 2004; Wong, et al, 2005; Carree and Thurik, 2006), it is uncertain how traditional philosophies impact on entrepreneurial success. Many studies have discussed relationships between culture and economic development ([Harrison, 1985](#); [Hofstede and Bond, 1988](#); Guiso, et al, 2006; Anderson and Lee, 2008; [Schumpeter, as cited by](#) Cantner, et al. 2008; Swedberg, R., 2009). The studies have argued that an economy cannot be fully appreciated without examining the country's culture. Therefore the importance of understanding shared values, beliefs and behaviors is paramount.

China has had a long and colourful history of entrepreneurial practice and up to the 1980s entrepreneurs concentrated on small-scale retail and service provision. However time brings change. Today the entrepreneurial spirit is thriving on the back of China's burgeoning economic growth where the development and growth of new ventures are driving forces in China's advancement as a world economic power. Schumpeter (1934) identified entrepreneurship as a vehicle of continual reorganisation of the economic system, and entrepreneurship is well documented as being a key player in change, in encouraging innovation, and in increasing productivity in world economies (Julien, 1989; Mc Daniel, 2002; Casson, 2003; Bodde, 2004; Van Stel 2006; Kukoc and Regan, 2008).

### **Why Shandong?**

1. Shandong contains some 104 universities with a combined number of students totalling 1.3 million. (Shandong Province Statistical Yearbook, 2008a) Collectively they have produced many successful and outstanding entrepreneurs.
2. Confucian philosophy is especially relevant in Shandong as it is the birthplace of Confucius and the spiritual home of Confucianism. The philosophy flows into the methods in which business is structured and operated. Confucianism can be described as a code of conduct that sets out guidelines on how to live life (Ci, pp.104, 1994). Its influence on how the Chinese live their lives and do business cannot be underestimated and this study may provide the opportunity to determine if a Confucian mindset affects Chinese entrepreneurial traits and characteristics.
3. Shandong is strong in business and manufacturing (Shandong Province Statistical Yearbook, 2008b)
4. The Shandong government has placed heavy emphasis on moving from a reliance on secondary industries to a combination of primary, secondary and tertiary industries by the year 2012 (China Economic Net, 2008). Growth is planned through attracting large international investment and by encouraging technology R&D in key areas including electronic information, biotechnologies, oceanic technologies and new materials. This

initiative will open opportunities for entrepreneurial exploitation.

**Confucian value concepts: virtue or morality**

Despite efforts to obliterate it (Hackett, pp. 39, 1979; London and Rodgers, pp. 291, 1989; Nuyen, 2003), Confucianism now enjoys favor within current Chinese socialist ideology and continues as a force in Chinese thinking (Friedman and McCormick, 2000, p. 33). Jacobs (et al, 1995a) affirm that in doing business in China, Confucian philosophy and its social hierarchy affects how business is conducted and the manner in which entrepreneurs act.

Confucianism is not a religion. It consists of a set of down-to-earth rules for daily life. Hofstede, as cited by de Mooij, (pp. 33-37, 2003) asserts that in practical terms Confucianism refers to a long-term versus a short-term orientation in life, while Oh (1991, p. 46) states that Confucianism limits itself to the correct observance of human relationships within a hierarchically-oriented society. Fundamentally the philosophy proposes that human nature is basically good and that people can find a level of refinement through self development and by leading an ethical and moral life (Zhang and Guo, 2008).

Although not as prominent as it was, Confucian philosophy still echoes loudly in Chinese life and in the quest for entrepreneurial goals (refer table 1). It has survived challenges and criticism to be prominent in:

- the set up of relationships (stable relationships create harmony and teamwork which are conducive to making business easier to conduct)
- thrift (related to the availability of and ability to source funds and/or saving money)
- a sense of shame (supports the point of view that caring for others is paramount and loyalty and trust is given and expected).

The Confucian mindset promotes the collective interest of workers through a high standard of moral conduct.

*Table 1: Confucian Virtues*

<b>Confucian Virtues</b>	<b>Manifest as</b>	<b>Outcomes</b>
1. The five Confucian relationships: - benevolence ( <i>rendao</i> ) - righteousness ( <i>yi</i> ) - propriety ( <i>li</i> ) - wisdom ( <i>zhi</i> ) - faithfulness ( <i>xin</i> )	Virtues that are core to Confucianism and emphasize: - kindness, love, forgiveness, fairness, sensitivity to others, opposition to use of force & punishment	- Keeping promises - Being just, righteous & unselfish - Maintaining loyalty - Respect for the self esteem of others
2. Stability and chain of command: The focus on order & hierarchy is the key component in Confucian leadership practices	Relationships between: - master & follower, father & son, husband & wife, elder & younger brother, friend & friend	- Loyalty & duty, Love & obedience, Obligation & submission, Seniority & role modelling, Trust, Relationships built through an active web of networks & connections
3. Strong, fair & just leadership: The leader should be a learned man who maintains social order through virtuous practice	The acceptance of the leader's status & his/her commitment to the obligations to the Confucian doctrines is critical to balance & harmony in an organization	Harmony within an organization: - reduces conflict - promotes smooth running - maintains good relationships

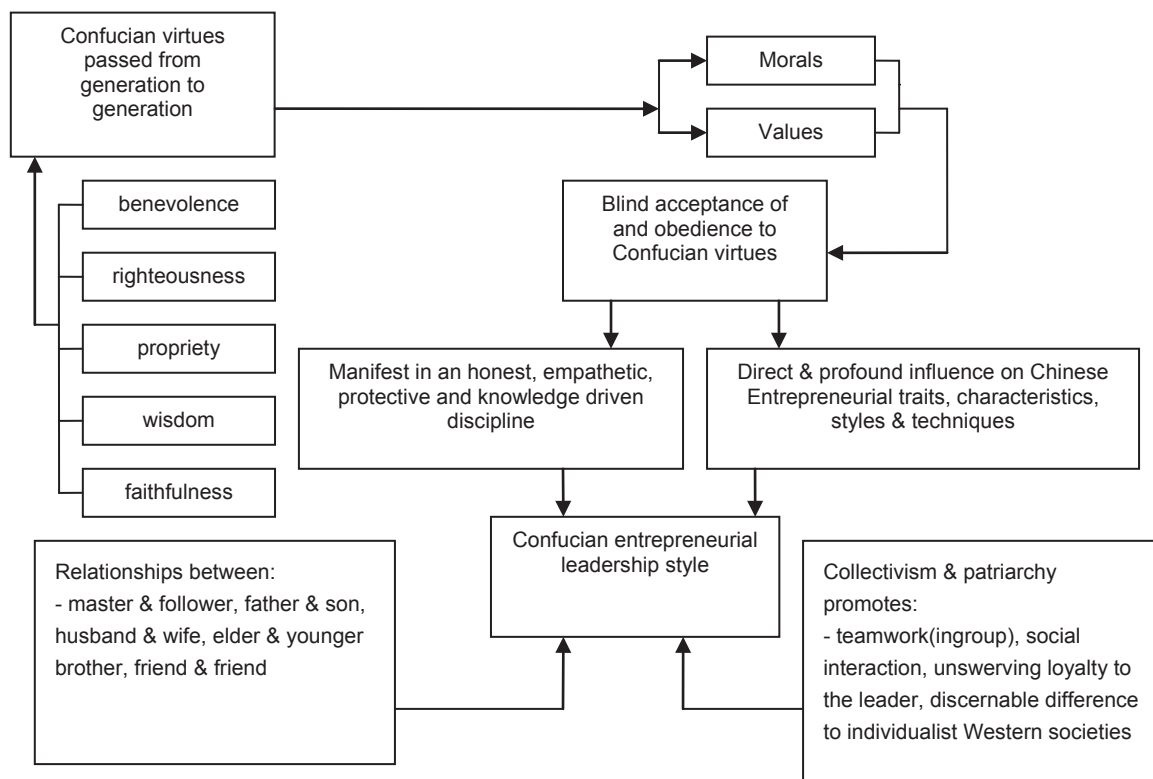
4. Collectivism & patriarchy	As proposed by Hofstede (1980) promotes organizations as collectives that focus on teams that work as groups in which members are interdependent and are lead by father figures who are respected & admired	Within a Chinese organization this promotes: - teamwork (ingroup), dependence on others for output, social interaction, unswerving loyalty to the leader, discernable difference to individualist Western societies
5. Education: Development & continuous transformation is an important element of Confucianism where human development & enhancement can only take place through continuous learning & education	Belief that man can find perfection in education & continuous learning	Education provides the opportunity to accumulate knowledge that can be applied to improving processes throughout the organization on a day to day basis while supporting the creation of new ideas & innovation
6. Ethics and morals: The moral concept is the cornerstone of Confucianism.	Power & stability in organizational management and maintaining harmony within the workplace & the wider environment comes from being a highly moral person.	Unlike western business thinking Confucian entrepreneurs hold the belief that to conduct business well & to be successful they must obey & apply the five Confucian relationships with the complicated application of both morals & ethics overriding all business practices
7. Chauvinism: The Confucian hierarchical concept of relationships between men and women is a core value where men are regarded as leaders with superiority over women	Chinese women are considered to be & are viewed as subordinate to men with the expectation that they accept & know their place	Men hold all the important leadership and decision making positions within organizations while women are not expected to nor should aspire to break "the glass ceiling"

### **Confucian DNA**

Dickmann and Stanford-Blair (2008) suggest culture evolves over time under a multitude of influences while according to Hofstede (as cited in Dwyer, p.201, 2005) it is the collective programming of the mind which distinguishes the members of one human group from another. Confucian teachings have been passed down from generation to generation so that they are at the core of Chinese culture, shaping and programming the values held by Chinese people today.



Figure 1: Confucian entrepreneurial model



This survey identified that Chinese entrepreneurs share many common entrepreneurial characteristics and traits to those found in entrepreneurs the world over. However, there are different values (Confucian values of humanity, righteousness, propriety, wisdom and faithfulness) not readily seen in western entrepreneurs. DNA is the genetic code that ensures the next generation cells inherit the same characteristics as the parent cells. Its replication is a vital process in all life (National Institute of Health, [www.genome.gov](http://www.genome.gov)). The authors suggest that the Confucian code of conduct through its values and virtues is the DNA that instils a very different moral and ethical mindset that clearly distinguishes Confucian entrepreneurs from their western counterparts (Fan, 1995). Therefore to gain insight into the behaviour of Chinese entrepreneurs it is relevant to study their beliefs, attitudes and values that drive their behaviour.

Acceptance, understanding and influence of western management techniques and thought, suggests that Confucian entrepreneurs are a rapidly disappearing social type (Cheung and King, 2004). An opportunity therefore is presented to establish whether respondents still applied elements of Confucian philosophy to their entrepreneurial activities and to determine what effects it had on their success or otherwise.

### **The Shandong Survey**

#### *Methodology*

The intent of this survey was to collect data from respondents who were considered to fit the description of Confucian entrepreneurs. The entrepreneurs were surveyed from large and medium firms located in the Shandong Province and they were identified as possible Confucian entrepreneurs through recommendations and referrals from those who have associations or relationships with them.

A number of topics were explored through a structured questionnaire based survey instrument that was administered in the year 2008. The sample included firms from all types of ownership: sole proprietors,

shareholding enterprises, limited liability companies, joint ventures, etc. A total of 86 questionnaires were forwarded to the Shandong entrepreneurs with 36 failing to respond to the survey and 8 being deemed as unusable. This resulted in 42 usable cases giving an effective return rate of 49 percent.

The respondents were CEOs and each was asked for information about their firms in respect of entrepreneurial activities and in particular ownership structure, industry, family employment, age, education, motivation, success factors and their skills. In addition, questions were posed to determine the influence of traditional Chinese philosophies over their entrepreneurial traits, characteristics, style and business behavior. The questions were formulated as closed questions using a 5-point Likert scale, plus open-ended questions to be answered as the respondents saw fit.

The questions were translated from English into Mandarin, pre-tested, checked for contextual accuracy and administered in Shandong province where the data was collected. The completed questionnaires were transported to Australia where they were translated into English then analyzed with the resultant findings published here.

Requests for anonymity were made by the majority of respondents, however background information from a sample is presented in the Appendices.

### ***The impact of Confucian value concepts on Shandong entrepreneurs***

#### ***Hierarchy***

Although Asian countries are classified under Hofstede's (1984) dimensions of culture as high power-distance countries where relationships and flows of information are more formalized and there is greater emphasis on status and power, the Shandong entrepreneurs however, seem to go against this tide. Organizational hierarchy, discipline and control are less important and emphasis is placed on relationships and culture to overcome risks, ambiguity and uncertainty. By establishing stability and chain of command the Shandong entrepreneurs build and maintain strong relationships and networks with their internal and external partners in step with Confucian values.

CEO D: "I share credibility and trust with my workers and with my customers, suppliers and government partners. I let them join my business and share in the achievements of my company."

CEO H: "By letting my various partners continue to work together and keeping faith in their abilities even in tough times, I know that when opportunities come our way we will all work hard to secure them and then all share in the success that our combined efforts bring."

#### ***Collectivism***

Collectivist societies like China depend more on teamwork than individual needs. The entrepreneurs supported this premise and stressed that their businesses benefitted from a collectivist outlook. Collectivism had made a positive contribution to their entrepreneurial endeavors in that employees were motivated to stay with the company through the development of strong relationships and providing employees with a strong sense of identity. They work in an environment where the spirit of co-operation and relationship building is encouraged and where stability and harmony ensues.

Confucianism has the potential to create an organizational culture that nurtures harmony and community.

The Confucian entrepreneur promotes the vision of respect for others that is based on strong and harmonious relationships between all members within the protective and serene cloak of collectivism.

CEO U: "We learn from our employees and we learn from our external partners. Each contributes to the wellbeing of our company and in return I do everything to ensure they also receive maximum benefit from their efforts."

CEO N: "It is important to understand and use the western scientific management approach but also it is very important to use the traditional management philosophy of sharing ...Keep the unit benefit not individual benefit...share information."

### *Traditional philosophies*

The respondents were asked to nominate which one of the five designated traditional philosophies aided them in being an effective entrepreneur.

All entrepreneurs confirmed that they were guided in their businesses by one of the five nominated traditional Chinese philosophies. The majority at 72 percent stated that they were influenced by Confucian philosophies while 54 percent nominated Iching (Book of change) with Sun Tsu's Art of War registering 45 percent. Taoism registered 18 percent with Buddhism at 9 percent. The relatively high nominations for Confucianism offered an opportunity to gain an insight into the influence of the philosophy on the surveyed entrepreneurs.

There appeared to be significant influence through the moral codes of Confucianism as several respondents discussed the importance of what had been learned from Confucius. Benevolence (duty to take care) came to the fore:

CEO S: "People come first in my organization. If I treat them honestly they will always be loyal and trusting employees. If you take care, they will return the care and look after you."

CEO W: "I cultivate my workers. If I nurture and look after them and give them the resources to do what is required to be competitive, then they will grow and gain confidence, and repay me tenfold."

Jacobs (1995) appears to support the above statements as he argues Chinese business philosophies that include values, beliefs and practices together with work ethics, (characterized by diligence, responsibility, thrift, promptness, co-operation and learning), are based on Confucian principles. As such the Confucian work ethic maintains a social interconnection that is not commonly found in Western cultures. Further, Rarick (2007) suggests that especially in a Chinese entrepreneurial culture, social relationships are family based. Therefore as Confucianism is a key element in Chinese culture, it has been at the origin of social rules and personal behaviour in China that has been handed down from generation to generation.

CEO V: "To do business it is imperative to give credit to the words of Confucius - *I don't see how a man is acceptable who is untrustworthy in what he says. When a pin is missing in the yoke-bar of a cart, how can you expect it to go forward?* I believe Confucius used this metaphor to explain that honesty and keeping promises are most important characteristics by which we survive and develop."

## **Education**

### *The Value of Education in Confucian Tradition*

In a Confucian context, education and learning emphasize the importance of continuous learning throughout a lifetime. The two contributing characteristics to education are to:

- acquire and accumulate knowledge
- put the knowledge to constant use

According to Confucius “Learn widely and be steadfast in your purpose, inquire earnestly and reflect on what is at hand, and there is no need for you to look for benevolence elsewhere” (Analects, chap. 19 pp 353).

As the function of education, training and learning is regarded in Confucianism as one of the most important elements for people, the respondents were asked to nominate the highest level of education achieved. It was revealed that before starting their ventures, the entrepreneurs were highly educated, where 76 percent had attained university degrees, while 4.8 percent reached Masters Level and 2.4 percent earned doctoral degrees. This could suggest that supported by the Chinese Government’s drive to increase high education levels, more entrepreneurs took advantage of opportunities to study. It may also reflect the high importance of education in Confucian tradition where a heavy emphasis is placed on gaining high levels of knowledge. Confucian philosophy dictates that education is an important element of virtue where the virtuous person is respected.

### *Combination of learning and entrepreneurial character-building*

Timmons & Spinelli (2004) suggest that the entrepreneur is a patient leader who is capable of instilling tangible vision through being a learner and teacher, a doer and a visionary. Baum and Locke (2004a), state that the positive impact on venture growth by entrepreneurial traits and skills has been demonstrated by research while Burns (2008) suggests that entrepreneurs are born with certain personal character traits that are then shaped by history, life experiences, background and the societal culture to which they were born.

Traits and skills are fostered by the entrepreneur’s life experiences and the resultant outcomes. As such each experience teaches lessons in life and builds character. It is quintessentially setting learned ethical values into practice. In doing so it is expected that entrepreneurs will live through the experiences and evolve as wise and more experienced people.

Dahlgard-Park, (2006) proposed that according to Confucianism, it is important to combine intellectual and conceptual learning with character building. Sincerity, honesty and trustworthiness are among the traits that build character. According to Confucius’ Analects (chap. 7, pp.117; chap. 19, pp.353) “*the master instructs under four heads: culture, moral conduct, doing one’s best and trust in what one says...learn widely and be steadfast in your purpose, inquire earnestly and reflect on what is at hand, and there is no need for you to look for benevolence elsewhere.*”

The Confucian concept of learning embraces the acquisition and accumulation of knowledge but goes further to suggest that learning comes from putting the acquired knowledge into practice. Knowledge and practice build character and continual character building is supported by continuous learning and consistent practice. Confucius proposed that people must be eager to learn and that knowledge could not be passed

on if they did not want to learn and could not learn unless they were eager to learn. He said that the teacher or master should teach only people who really want to learn. The Analects (chap. 2, pp. 23) suggests that learning without thinking is not conducive to the acquisition of knowledge while thinking without learning is a risky proposition.

CEO K: "Learning is very important to me and my business. It is important to have formal learning from university but it is equally important to learn from my mistakes and to learn from others' successes."

CEO W: "Make learning a priority. Have the self confidence to understand that you don't know everything."

Senge (p. 13, 1990) suggests that people want to be a part of something larger than themselves. They want to be connected and they want to contribute. This is achieved through teamwork and the experience of being a valued team member becomes part of their psyche. Confucian values encourage a mindset where this sense of belonging and desire to succeed as a group transforms Chinese firms. There is a genuine thought process that allows the smooth transition of firms into learning organizations.

#### *Entrepreneurial traits and characteristics*

Lee and Anderson (2007) suggest that running a business in China, irrespective of its size, is a complicated and risky undertaking. They add further that to do so and expect success, Chinese business managers should be equipped with certain entrepreneurial competencies in the areas of attitudes, skills and knowledge. In a study to determine the characteristics and attributes of entrepreneurs one might expect to be presented with a valuable analysis of entrepreneurial characteristics that might include the motivations and drivers that entrepreneurs display in setting up new business ventures.

According to Thomas and Mueller (2000) the term entrepreneur implies a configuration of psychological traits, attitudes and values of an individual motivated to initiate a business venture. Similarly in a Confucian context these emerge as moral codes, ethical behaviors and trustworthiness among others. Research indicates a more complex approach to identifying entrepreneurs by evaluating the personality characteristics of those who start a business (Carland et al, 1988). In identifying entrepreneurs Krueger (1998) states that it would be prudent to isolate the primary tendencies and reasons for deciding to start a business, whereas Gartner (1989) held the belief that entrepreneurs possess unique personality characteristics. His principle is traditional in the investigation of entrepreneurship studies, and research rooted in this idea is known as the trait approach. This method is acknowledged as producing significant relationships between an entrepreneur's personality traits and their entrepreneurial direction. Confucian entrepreneurs possess many of the traits of their western counterparts however their traits are shaped by culture and traditional philosophies and as such affect the ways in which their entrepreneurial styles and characteristics manifest.

The creation of a new venture can be a complicated process that requires a set of traits and characteristics that drive the entrepreneur to achieve their set goals. In a quest to determine entrepreneurial spirit of the Shandong respondents a set of statements were presented, using a five point Likert scale that ranged from "Always" (5: highest score) to "Never" (1: lowest score).

In answering the questions that identified the traits and characteristics of entrepreneurs the respondents

registered high scores in the following:

- |  |       |
|--|-------|
| 1. I tackle problems immediately with confidence                 | 100%  |
| 2. I dislike being inactive, I thrive on activity                | 100%  |
| 3. I enjoy solving problems                                      | 95.3% |
| 4. I am self motivated   | 97.7% |
| 5. I thrive on stress  | 92.9% |
| 6. I thrive on challenges  | 100%  |
| 7. I am prepared to take calculated risks to start a new venture | 95.3% |

From the above scores, Shandong entrepreneurs displayed a very strong affiliation to the western concepts of the key characteristics and traits required of an entrepreneur. Each of the 42 respondents ranked in the top 90 percent answering either “Always” and “Usually” for every question to determine an entrepreneurial passion. Although similar in characteristics and traits to their western counterparts, Chinese entrepreneurs and in particular those surveyed from Shandong differ due to the direct and profound influence of Confucian values.

CEO M: “In the beginning I wanted to start a business because I had a strong desire to show people that I was capable. I simply wanted to prove myself. There was a passion to prove that I could be successful.”

CEO R: “Don’t be scared to take a chance. If you don’t try then you will never know and then you will spend your life wondering what might have been.”

#### *Number of businesses started*

To further support the strong entrepreneurial bias shown by the Shandong respondents the study disclosed that 67 percent of those interviewed had created two or more ventures. Based on entrepreneurial theory that entrepreneurs are driven by the need to create new ventures (Endres and Woods; 2007; Morrison, 2001; Worcester, 2001) there might be a suggestion that within this particular percentage of respondents there are entrepreneurs in the true sense of the definition (Drucker, 2006; Hisrich, *et. al.*, 2005) not simply opportunists who set up and continued to operate and manage their businesses.

CEO U: “I like to start new businesses. There are many ideas but it seems only a few people recognize them. When I recognize a sound idea I will go for it today rather than waiting until tomorrow when it might have disappeared.”

In a study on motivational aspects of Chinese entrepreneurs, Taormina and Lao (2007) suggest that starting a business is complicated and as such requires the input of other people to succeed. They determine that those who embrace relationships built through an active web of networks and connections would be more likely to be successful than those who do not. Such social networking is promoted through the values of Confucianism.

#### *Confucian Motivation*

Schumpeter offered psychological explanations for the entrepreneur’s actions as being: the desire for power and independence, formation of a “private kingdom”, impulse to fight and conquer, success itself and the joy of creating (Birley and Macmillan, 1997; Carlin, 2007; Licht, 2007). McDaniel (2005) further suggests that it is a more natural conclusion to view the entrepreneur as being driven by motivational forces outside

the strict orientation of the neoclassical model of market capitalism. While Humphreys (2007) stresses the importance in an interdependent relationship as evidenced under Confucianism that the leader and follower are responsible to each other and as such motivate each other to the achievement of company goals. Batonda and Perry (2003) propose that the motivation to develop a relationship is both economically and socially oriented, and a long time orientation as seen under Confucianism establishes strong networks.

*How do I motivate my employees to achieve my goals?*

Eighty eight percent of respondents answered that they very often and often motivated their employees. Motivation appears to come from the sense of family that is promoted within entrepreneurial organizations and also from the sense of belonging rather than from monetary rewards.

CEO R: "My people are motivated by the environment in my factory. They want to come here each day to be with friends. By encouraging the social interaction of my employees, I am motivating them."

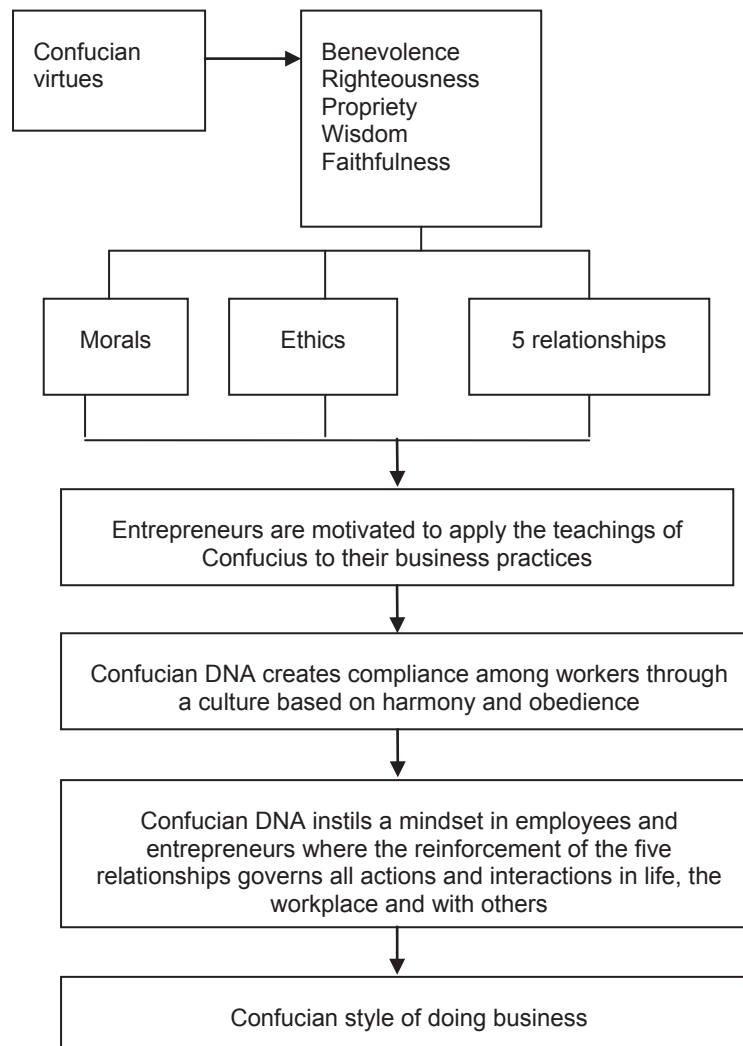
CEO P: "My staff become energized by encouragement and praise and therefore want to do better than the day before."

Within a Confucian entrepreneurial environment, interpersonal relationships and trust are important elements. In support of this, one respondent stated that business growth depends on the efforts of the entrepreneur. Growth comes from a vision for the business, from the opportunities that manifest from the environment and from his ability to exploit those opportunities. The respondent's abilities to develop opportunities are enhanced through his interaction with other entrepreneurs with whom he meets regularly (refer figure 2).

CEO Y: "A successful entrepreneur has to be an excellent leader. Lead by example and give recognition for good work. Also be honest. I value honesty. It is a most valued leadership quality. Honesty allows me to grow in confidence when dealing with and working with others. When I lead, I interact with my workers so they are willing and proud to achieve the objectives I have set."

CEO B: "Depend on your own resources but seek advice, interaction and support from entrepreneurial groups such as the Shandong Entrepreneurs Association and also look to the success factors of well known Chinese and western entrepreneurs."

Figure 2: Confucian Entrepreneur Business Process Map



*What motivates Shandong entrepreneurs?*

Ninety eight percent of respondents either agreed or strongly agreed that they were self motivated with 88 percent stating that they often or very often motivated their employees to achieve the goals they set.

O'Neill and Drillings (1994), suggest that Confucian motivation comes from the rituals and values found in the workforce and it is easier to sustain higher motivation if there is common sense of purpose that is ritually enforced and supported by the Confucian leader. Nuyen (2009) proposes that the *xin* (faithfulness) produces both the moral cognition and the appropriate motivation that drives an entrepreneur's obligations to their culture while they simultaneously feel obligated to abide by Confucian virtues.

CEO F: "I am motivated by my goals. I motivate my people to have pride in their work. Money does not motivate me or my workers. It is a by-product of hard work and superior effort."

CEO G: "I am captivated by what I do and what my workers do for my firm. We are motivated because success has no end or finishing line. We want success and we always strive to achieve it."

**Discussion**

The results of the survey lay a solid foundation for the basic judgment about the effects Confucian



values have on a cross section of entrepreneurs in the Shandong province of PRC. The results appear to support the notion that the ancient doctrine of Confucianism is relevant today and may continue to exert its influence over Chinese entrepreneurs into the future. Confucian DNA is very strong and continues to flow from generation to generation. However, with an ever shrinking world through globalization and the opening of world markets, it is unclear for how many further generations Confucianism will continue to be a dominant force in entrepreneurial traits and characteristics.

Confucian entrepreneurs act like benefactors who fulfil their obligation to take care of the interests and well-being of their employees. Given that this is a code of conduct under Confucianism many Chinese entrepreneurs set up their firms so that their employees have jobs for life. This is contrary to western entrepreneurial thought and practice where the firm is set up with the bottom line and profits as the motivating forces for success.

Confucianism is an expression of the values, traditions and culture of Chinese people (Jacobs, et. al, 1995a). It has been so for over 2000 years therefore it may be highly unlikely that the philosophy could be or would be adopted by western entrepreneurs.

Shandong entrepreneurs are motivated by the desire to build their ventures and consider education as an important resource in ensuring the success of their start up business. Not only is education important but unless it is augmented by further learning and the application of the learning, it has little worth under Confucian thinking.

The study expressed here has a number of limitations. The results only characterise in detail the entrepreneurial activity of respondents in one province in China. It does not at best reflect a nationally representative sample or at least represent a significant numbers of provinces.

Although the majority of respondents were identified as possessing positive entrepreneurial traits and characteristics, the total number of sample respondents was male and therefore no comparison could be made with women entrepreneurs.

All of the data received and used for this study is self-reported, that is respondents responded to questionnaires that were sent to them and in addition the study relied on what was basically a very small sample of 42 respondents.

Finally, although the report has its deficiencies it does nevertheless, present several opportunities for further research

### ***Implications***

This research is limited to the influence of Confucian philosophies and culture on a select few entrepreneurs in one province of the Peoples Republic of China.

The report suggests a common culture of entrepreneurship that crosses international boundaries however there are anomalies such as Confucianism that cause cultural gaps. There is an opportunity therefore to conduct further research into the “gaps” across different countries and nationalities. Can any latent philosophies that affect entrepreneurial efficiencies from other cultures be identified and analyzed?

As women are becoming more involved in entrepreneurial exploits on a worldwide basis is there an



opportunity to undertake dedicated surveys within China? Firstly, measure the extent that traditional philosophies like Confucianism keep women out of senior jobs. Secondly, study the mindset of Chinese women to ascertain attitudes and opinions of women in business. Thirdly, develop case studies on Chinese women entrepreneurs who operate in mainland China.

There is evidence to suggest that more objective information might have been desirable in this study and in further studies of Chinese entrepreneurs it may be advantageous to include a level of face to face interviews as a counter-balance to the questionnaires. In addition it may be prudent to revisit the entrepreneurs with a further set of questions to determine the levels of influence that Confucianism has over them. Are they all influenced equally or can a scale of influence be determined via another survey?

Due to the limited number of respondents it is essential that a more widespread empirical study be conducted to substantiate the results in this study and to obtain a greater depth of research material.

As businesses become more sophisticated in structure and complexity, starting a new entrepreneurial venture in China could demand higher levels of knowledge and understanding. That premise may be evidenced in the Shandong results.

Chinese entrepreneurs are becoming more influenced by western methods of conducting business through the interaction and negotiation with western buyers and sellers. What have they learned from these experiences? Can a Confucian entrepreneur survive by continuing to adhere to the ingrained virtues while interacting with entrepreneurs who do not work within Confucian rules? Can they work and succeed in a western environment without adapting to western ways of doing business?

Is Confucian DNA transferrable to western entrepreneurs and would its transference have any influence on their morals and ethics in the way they conduct business?



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## **Appendices:**

### **Appendix 1: Background information from a sample of respondents to the survey**

CEO B - Ceramics Manufacturing Corporation: He is a university graduate and is an applied researcher in ceramic material development. In addition to manufacturing high quality ceramic products the firm is engaged in research into new ceramic materials and their applications.

CEO D - Coal and Mining Corporation: Heads up a conglomerate that employs in excess of 100,000 people globally. He is a graduate of the Institute of Mining Technology.

CEO F - Glass manufacturing: From a small factory start up he presides over an enterprise where in 2007 sales registered in excess of 20 billion Yuan (\$US 3 billion). With markets extending to many overseas destinations this company is in the top three in its industry in China. CEO F has received several awards for new venture creation in addition to accolades for social commitment.

CEO G - Household textiles firm: Under his leadership the firm has emerged as an industry leader in the manufacture and marketing of high quality innovative products.

CEO H - Large scale machinery company: Graduating from junior college this entrepreneur now controls a business that employs 1500 people.

CEO K - Newsprint production: With revenues in excess of 130 billion Yuan (\$US 19 billion) this entrepreneur heads up the world's largest paper making firm. The organization is ranked third on China's national bureau of China's top 500 large enterprise groups. It employs more than 10,000 people.

CEO M – Wool processing: Is an MBA graduate who over twenty years ago began his entrepreneurial quest by starting his company. His importing and exporting efforts have seen him being awarded the National Labor Medal and the National Science & Technology Progress Prize.

CEO N - Amino acid fermentation company: This entrepreneur excels in his field having been awarded and feted for innovative products and research achievements.

CEO P – Heavy machinery manufacturing: This entrepreneur has a double degree in engineering. His organization has had stellar growth in supplying various specialist industries throughout China.

CEO S – Semiconductor company: Senior engineer, university graduate and corporate venturer having set up many business and joint ventures. Company is the largest integrated circuit bonding producer in China.

## **Malaysian Small and Medium Enterprises: The Fundamental Problems and Recommendations for Improvement**

Jeen Wei Ong

Faculty of Business and Law, Multimedia University

jwong@mmu.edu.my

Hishamuddin Ismail

Faculty of Business and Law, Multimedia University

hisham@mmu.edu.my

Peik Foong Yeap

Faculty of Management, Multimedia University

pfyeap@mmu.edu.my

### **Abstract**

Malaysian economy has gone through a significant transformation over the last few decades from agricultural-based to industry- and knowledge-based. The rapid modernisation, industrialisation, and globalisation of Malaysian economy have also made Malaysia vulnerable to economic fluctuation of the global economy. Experience from 1997 economic crisis, the Malaysian government has increased the emphasis on development and enhancement of small and medium enterprises (SMEs) in the country. Nevertheless, a lot of efforts are still required to enhance the competitiveness of Malaysian SMEs especially in term of GDP contributions and employees productivity. Thus, this study explores five fundamental problems of Malaysian SMEs include the quality of owner managers, the government assistance programmes, adoption of modern technology, lack of competitiveness of micro and small enterprises, and definition of SMEs in Malaysia. Recommendations are presented to solve the problems.

**Key Words:** Small and medium enterprises, Malaysia, entrepreneurship, policy evaluation

### **1.0 Introduction**

Malaysian economy has gone through stages of well planned development since independent. The development of Malaysian economic is mainly guided by three outline perspective plans, namely the New Economic Policy (NEP), National Development Policy (NDP), and National Vision Policy (NVP) and various development strategies include Import Substitution (1957 – 1967), Export Development (1968 – 1980), Development of Heavy Industry (1981-1984), and the three Industry Master Plan (1986 – 1995, 1996 – 2005, and 2006 – 2020) (Mahadevan, 2007). The economic development has improved greatly despite the hit from economic crises (Mahadevan, 2007). Prior to the Asian Economic Crisis during the end of the nineteenth

century, Malaysia, under the leadership of Tun Dr. Mahathir had achieved fifty percent of the status of a developed economy with average real economic growth of eight percent per year (Suyderhoud, 1999). This achievement has made Malaysia one of the Asian “miracle” (Suyderhoud, 1999). Additional credit should be given as the Malaysian government was practicing affirmative policy to balance the wealth among the multi-races community rather than optimising economy development at that period (Suyderhoud, 1999). Though, the success of the affirmative policy remain questionable as the *Bumiputera*<sup>1</sup> corporate ownership remains at slightly lower than 20 percent but still lower than the target of 30 percent ownership (The Star, 2008a). The main driving force behind the achievement is the success in transforming the country from agricultural-based to industry-based then to the latest of knowledge- and ICT-based (Mahadevan, 2007). Rapid privatisation and focus on heavy industry since 1980s and the development of Multimedia Super Corridor (MSC) are among the significant milestones for the transformation of Malaysian economy under the premiership of Tun Dr. Mahathir (see Kanapathy, 2000; Economic Planning Unit, 2001; Idris & Rahmah, 2006).

The achievement of the Malaysian economy through rapid modernisation, industrialisation, and participation in globalisation has made the country bear the negative consequences (Mahadevan, 2007). The country economy has become vulnerable to external shocks heavily affected by the well being of the global economy. Lessons of 1997 Asia Economic Crisis have shifted the Malaysian government focus onto SMEs (Normah, 2006). Over-dependence on foreign direct investments to stimulate economic development has led to the problem of rapid withdrawal for relocation to a lower cost country (Normah, 2006). Thus, strengthening SMEs in the country is needed as the mechanism to boost domestic-led investment for sustainable economic development (Normah, 2006). In addition to the economic benefits such as employment opportunities, growth of Malaysian per capital income, and promoting economic stability (Hashim & Wafa, 2003), SMEs have also contributed in promoting social welfares such as balancing the wealth gap among races (Suyderhoud, 1999), reducing poverty, and redistributing wealth in the rural areas (Chan, 2005).

One of the most significant actions has been taken by the government to strengthen the Malaysian SMEs was through the establishment of National SME Development Council in August 2004 (Normah, 2006). The council is chaired by the Malaysian Prime Minister. The council main objective is to develop SMEs includes broad range of responsibilities, such as (Normah, 2006):

- (a) Formulate policies and strategies for development of SMEs
- (b) Adopt specific and standard definition of SMEs
- (c) Establish and maintain a comprehensive national SMEs database
- (d) Expand the development of support programmes and facilities to enhance financing.

Besides, various Ministries and Agencies also play critical roles in the development of SMEs in Malaysia. They are Census of Establishment and Enterprises, Small and Medium Industries Development Corporation (SMIDEC), Ministry of Entrepreneur and Co-operative Development (MEDC)<sup>2</sup>, Malaysia External Trade Development Corporation (MATRADE), and SIRIM Berhad (United Nations Development Programme, 2007).

One of the very first actions took by the National SME Development Council was to establish a standardise definition for Malaysian SMEs. On 9<sup>th</sup> June 2005, the Council approved the standard definition

<sup>1</sup> *Bumiputera* is literally defined as son of soil or indigenous Malaysians

<sup>2</sup> Ministry of Entrepreneurship and Co-operative Development was abolished on 9<sup>th</sup> April 2009 when Datuk Sri Najib Tun Razak succeed as the fifth Malaysia Prime Minister



for SMEs. The definition was based on two main criteria; firstly, the number of employees and secondly, the annual sales turnover. Segregation of the SMEs is based on four main sectors, namely primary agriculture, manufacturing, manufacturing-related services, and services (National SME Development Council, 2005). The details of the definitions are shown in Table 1. The establishment and adoption of the standard definition is to facilitate better identification of SMEs across sections, which is crucial to formulate more effective SMEs policies and implement the SMEs development programmes, provide technical and financial assistance, and monitor SMEs programmes and their contributions to the economy of Malaysia (National SME Development Council, 2005).

*Table 1: Definition of Small and Medium Enterprises (SMEs)*

<b>Sector</b> <b>Size</b>	<b>Primary Agriculture and Services Sector (Including ICT)</b>	<b>Manufacturing (Including Agro-Based) &amp; Manufacturing-Related Services (MRS)</b>
<b>Micro</b>	Less than 5 employees or sales turnover below RM 200,000	Less than 5 employees or sales turnover less than RM 250,000
<b>Small</b>	Between 5 & 19 employees or sales turnover between RM200,000 and less than RM1 million	Between 5 & 50 employees or sales turnover between RM250,000 and less than RM10 millions
<b>Medium</b>	Between 20 & 50 employees or sales turnover between RM1 million and RM5 millions	Between 51 & 150 employees or sales turnover between RM10 millions and RM25 millions

*Source: National SME Development Council, 2005*

Efforts from the government have make SMEs the backbone of the Malaysian economy (Saleh & Ndubisi, 2006). To date, SMEs make up 99.2 percent of total business establishments in the country (National SME Development Council, 2008), compared to only 89.3 percent as reported by the Department of Statistics census in 2000 (Saleh & Ndubisi, 2000). The SMEs have contributed 56.4 percent of employment (Bank Negara Malaysia, 2007), RM 88,266 million worth of output, and RM 17,798 million worth of value added to the economy of Malaysia (National Productivity Council, 2007). To further enhance the development of SMEs, Malaysian government has continued to commit significant resources for SMEs development programmes. The allocation for manufacturing and manufacturing related services SMEs has increased from RM1561.6 million in the Eight Malaysia Plan to RM2160.2 million in the Ninth Malaysia Plan (Economic Planning Unit, 2006). Information from SME Annual Report 2007 indicated RM500 million is to be committed to 141 SMEs development programmes in year 2008 (National SME Development Council, 2008). The government assistance ranges from entrepreneur development, human capital development, advisory services, product development, technology enhancement, marketing and promotion, to improve SMEs' awareness towards the assistance programmes (see National SME Development Council, 2008 for detail). Besides, SMEs are also given special attention and promises with special aids from the government to encounter the economic recession (Tan, Yuen, & Raman, 2008).

Despite the achievements, Malaysian SMEs still have a long way to go to be on par with the developed countries. According to the report of the Census of Establishment and Enterprises in 2005, SMEs were only contributing 19 percent of total export values and 32 percent of gross domestic product (GDP) (Bank

Negara Malaysia, 2007; National SME Development Council, 2008). In term of GDP contribution, more than 55 percent of the GDP in the People Republic of China and Japan were contributed from their SMEs (National SME Development Council, 2008). Furthermore, SMEs in Japan, Taiwan, Korea, Germany, and China employed more than 70 percent of the workforce in the country (National SME Development Council, 2006). This can be attributed to the low employee productivity in Malaysian SMEs. The average value added per employee in SMEs was RM 14,740, which is far below large enterprises of RM 47,830 per employee (Bank Negara Malaysia, 2007). The core problem of Malaysian SMEs is the size of the business. Out of 99.2 percent of the total business establishments in Malaysia is in the category of SMEs, 79.4 percent of them are micro businesses (Normah, 2006). Thus, if the definition of SMEs is followed tightly, only about 20 percent of business establishments in the country can be qualified as SMEs. Out of the 20 percent, majority of the businesses fall into the category of small rather than medium enterprises based on the data provided by Saleh and Ndubisi (2006). Too small in size has made the businesses can gain no advantage in the highly competitive market thus it is not surprising that employee productivity in SMEs is only about one third of the large enterprises (Bank Negara Malaysia, 2007) and contribute relatively low in GDP and export value of the country.

## **2.0 The Aim**

This study aims to discuss the fundamental problems of Malaysian SMEs and further suggest recommendations to enhance the competitiveness of Malaysian SMEs. First, the problems of Malaysian SMEs are discussed. The problems include the owner managers, the government assistance programmes, the adoption of modern technology, the lack of competitiveness of micro and small enterprises, and the problem with the definition of SMEs.

## **3.0 The Fundamental Problems of Malaysian SMEs**

### **3.1 The Owner Managers**

The quality of owner managers has long been the interest of entrepreneurship study (e.g. Green, David, Dent & Tyshkovsky, 1996; Venkataraman, 1997; Littunen, 2000; Littunen & Storhammar, 2000; Rauch & Frese, 2000; Shane & Venkataraman, 2000; Baron & Markman, 2000, 2003; Lee & Tsang, 2001; Korunka, Frank, Lueger & Mugler, 2003; Jaafar & Abdul-Aziz, 2005; Ong & Hishamuddin, 2008a, b). These studies tipped the owner managers to have high motivation for achievement (McClelland, 1961; Rauch & Frese, 2000; Lee & Tsang, 2001; Korunka et al., 2003; Jaafar & Abdul-Aziz, 2005, Ong & Hishamuddin, 2008a, b), internal locus of control (Rotter, 1966; Green et al., 1996; Littunen, 2000; Littunen & Storhammar, 2000; Rauch & Frese, 2000; Lee & Tsang, 2001; Korunka et al., 2003; Jaafar & Abdul-Aziz, 2005; Ong & Hishamuddin, 2008a, b), social skills (Baron & Markman, 2000, 2003; Ong & Hishamuddin, 2008a, b), and sensitive towards entrepreneurial opportunities (Venkataraman, 1997; Shane & Venkataraman, 2000; Ong & Hishamuddin, 2008a, b). Thus, the owner managers in SMEs are normally known as entrepreneurs (Brockhaus, 1976; Littunen, 2000; Ong, 2008; Ong & Hishamuddin, 2008b). However, the notion cannot be generalised to all the owner managers in Malaysian SMEs. Some Malaysian SMEs owner-managers might be reluctance to pursue the opportunities for growth and optimise the potential of the firm have limited the achievement of competitive advantage for their enterprises. Rather than categorising them as entrepreneurs, a more appropriate name would be craftsman as they are basically utilising their technical skills to earn a living (Cooper & Dunkelberg, 1986). They might treat their ownership in the SMEs as a job rather than a

business venture. Thus, it is not surprise to learn that majority of Malaysian SMEs are in the category of micro enterprises and are conservative in adopting latest technology and business practices (Rosmini & Ahmad Zohdi, 2006).

### *3.2 The Problems of Government Assistance Programmes*

#### *3.2.1 Inappropriate Approach*

In the effort to strengthen the SMEs, financial, technical, and advisory assistance was planned. In addition, the government also facilitates enabling infrastructure for development of SMEs (Economic Planning Unit, 2006; National SME Development Council, 2008). Although the programmes have benefited some SMEs (National SME Development Council, 2008), many remain unaware or uninterested of the government assistances (Mahajar & Jasmani, 2006; The Star, 2008b). Few factors explain this problem. Firstly, the inappropriate marketing channel used by the government agencies that facilitate the assistance programmes. The agencies need to be more proactive to approach the owner managers and explain the benefits of the assistance programmes rather than merely rely on mass marketing. More efforts might be needed as empirical study by Mahajar and Jasmani (2006) and statement by the Deputy Finance Minister of Malaysia (The Star, 2008b) have highlighted the problem that SMEs owner managers in Malaysia are generally unaware of the government assistance programmes. The owner managers are generally more comfortable in doing their business using their current model rather than actively pursuing innovation and growth for their firms (Rosmini & Ahmad Zohdi, 2006). The craftsmanship approach by the owner managers makes them feel that they have no need to apply for the government assistance programmes. Their main interest is protect their "rice bowl" rather to take up the financial assistance to expand their business.

#### *3.2.2 Duplication of the Government Assistance Programmes*

Too many Ministries and government agencies involved in assistance programmes for SMEs might make the situation complicated and ambiguous. The Ministry of Entrepreneurship and Co-operative Development (MECD) and Ministry of Science, Technology, and Innovation (MOSTI), together with another 26 agencies are providing financial assistance to the development of SMEs (SMEinfo, 2006). This excludes the Ministry of International Trade and Industry (MITI) and SME Bank, a government-linked bank to facilitate financing for SMEs. To make the matter worse, each of these Ministries and agencies have further structured their financial assistance into various categories. Thus, viewing on the structure alone might turn down the SMEs owner managers who are not desperately need for the financial assistance. The situation is even worse for the SMEs owner managers with low level of education as understanding the suitable grant for them is already miserable. From the government perspective, dividing the scarce funding across various Ministries and agencies might not be a wise action. Besides confusing the target "customers", the duplication of assistance programmes across the Ministries and agencies can be viewed as an unnecessary waste and inefficiency. Furthermore, dividing the fund to various Ministries and agencies might retard these bodies to plan for effective programmes for greater impact such as building an Entrepreneurship College (see for Ong, 2008). This Entrepreneurship College is aimed to nurture entrepreneurship talent among the students and act as a training centre to provide necessary skills and knowledge for the high school drop-out to venture as an entrepreneur.

#### *3.2.3 Negative Perceptions of the Government Assistance Programmes*

Riot among the races on May 13, 1969 in Malaysia gave way for affirmative policy (Kua, 2007). New

Economic Policy (NEP) and the concept of *Ketuanan Melayu* (Malay Dominance) were implemented to ensure the rise of new Malay Capitalist class (Kua, 2007). "Special rights" were granted to *Bumiputera*, especially Malay in the realm of religion, economics and politics (Jomo, 2004; Ariff & Abubakar, n.d.). The implementation of the affirmative policy has restricted the Malaysian non-*Bumiputera* opportunity in business especially in getting assistance and contract from the government (Ye, 2003). Thus, it is no surprise to learn that the Malaysian Chinese who are still dominating the SMEs in the country have very negative perception towards their opportunity to be granted government financial assistance even though the Prime Minister himself has stressed that the SMEs financing is for all Malaysians (Fam, 2007). This negative perception may lead the non-*Bumiputera* Malaysians reluctant to apply for government assistance programmes. On the other hand, the Chinese entrepreneurs have responded through what Malaysians know as "*AliBaba*" that is by "borrowing" the identity of Malay to apply for contracts and grants from the government or to "buy" over the contracts awarded to Malay businessmen and manage the contracts to get huge profit. The *AliBaba* culture is a critical factor for the failure of the NEP that make affirmative policy continue and thus the young generation of non-*Bumiputera* Malaysians will remain reluctant to grab the opportunity from the government assistance programmes to optimise their entrepreneurial potential.

### 3.3 Adoption of Modern Technology

Extending from the discussion of the entrepreneurial quality of owner managers, the craftsmanship approach by the Malaysian SMEs owner managers might make them reluctant to adopt modern technology. Shariff and Mat's (2001) study has clearly revealed this problem among the Malay SMEs owner managers in Malaysia. The Malay SMEs owner managers are those who can easily acquire financial and technical assistance from the government due to the affirmative policy to ensure greater competitiveness of the Malay entrepreneurs. Their attitude of reluctance to move forwards to optimise the competitiveness of their firms means a huge portion of government investment to strengthen the SMEs in the country fail to yield expected result. This phenomenon will place a great obstacle to transforming Malaysia into a knowledge-based economy and to accelerate the competitiveness of SMEs in Malaysia. For the older SMEs owner managers, the problem of technology anxiety explain why they are reluctant to adopt not even the modern technology, but also the simple technology like personal computer. For the SMEs owner managers in general, Ong's (2008) study has revealed that the information technology competence of the SMEs owner managers in Malaysia cannot be considered as strong, especially in term of availability of information technology equipments and supporting personnel in the firm. Furthermore, Ndubisi and Kahraman's (2005) study on women entrepreneurs in Malaysia showed that they are not exploiting the information technology for strategic purpose but merely on operational usage. Nevertheless, ICT competence of the owner managers can significantly predict the SMEs competitive advantage (Ong, 2008; Ong & Hishamuddin, 2008).

### 3.4 Lack of Competitiveness of Micro and Small Enterprises

As indicated, although 99.2 percent of business establishment in Malaysia are SMEs, 79.4 percent of them are actually micro enterprises that are firms with less than five employees or annual turnover below RM200, 000. The small size makes the firms disadvantaged to compete effectively due to lack of resources and capabilities and unfavourable industry structure. Even though SMEs have been associated with greater capability to innovate and adapt faster to changing environment (Fiegenbaum & Karnani, 1991; Pil & Holweg, 2003; Wicks, 2005; Ong, 2008), when the firm size is too small all these advantages of being small will

disappear and the firm needs to bear risk for failure to achieve economic of scale. Small firms suffer from the disadvantages of lack of capital, difficulty to attract valuable human resources, slow to adopt modern technology, and hard to acquire funding due to lack of collateral (Normah, 2006). Furthermore, small firms will not be able to have bulk purchasing and enjoy economies of scale. They lack bargaining power with suppliers and buyers too. In addition, the industry structure for small firms requires low start-up investment to enter into the industry. Thus, the entry barrier into the industry is low. This low entry barrier induces new entrance whenever the firms within the industry earn above-average returns (Porter, 1980, 1985). All these factors make the competitive environment of SMEs unfavourable thus limiting their capability to earn competitive advantage (Porter, 1980, 1985). Without the competitive advantage and superior performance, the SMEs would not be able to pursue growth but continue to struggle for survival within the unfavourable competitive environment. This explains why SMEs are so vulnerable to general economic condition of the country.

### *3.5 The Definition of SMEs*

The majority of Malaysian SMEs fall under the category of micro business might explain the lack of competitiveness and contribution towards the country economy. Compare to the definition of SMEs found in the developed countries, the size of Malaysian SMEs is too small according to the standard definition provided by the National SME Development Council (2005). According to Dababneh and Tukan (2007), the definition of Malaysian SMEs is similar with the Asia Pacific Economic Cooperation's (APEC) definition. The size of SMEs defines in Malaysia is comparatively small compare to the size defines by the European Union, Multilateral Investment Guarantee Agency (MIGA), International Finance Corporation (IFC), and United Nations Industrial Development Organisation (UNIDO) (Dababneh & Tukan, 2007). In general, small size enterprises should have at least 10 employees, while firms with lesser than 10 employees are categorised as micro size firms. The number of employees is taken as sole factor for comparison because it is the most relevance criteria to measure firm size (Dababneh & Tukan, 2007). Thus, it is misleading to compare the performance of Malaysian SMEs with SMEs from other countries, especially the developed countries without taking into consideration the definition of SMEs.

## **4.0 Recommendations**

### *4.1 Improving the Quality of SMEs Owner Managers*

A potential solution to the problem of SMEs owner managers quality is through improving the education level of the entrepreneurs. Ong and Hishamuddin's (2008a) study on the owner managers in Malaysian SMEs found that education level has significant positive impact on entrepreneurial traits. The finding has reinforced earlier study by Lee (1997) on Singaporean women entrepreneurs. Understanding the importance of getting the graduates to venture into entrepreneurship career, the Malaysian government has invested a significant amount of financial assistance for graduates entrepreneurship programme. The programme can be effective for two purposes; to improve the quality of future SMEs owner managers, and to solve the problem of unemployed graduates. Nevertheless, the effectiveness of the programme remains questionable. A possible channel to improve the programme is to facilitate it through university rather than through government agencies. This is to ensure that sufficient attention is given to every viable business idea or model proposed by the students. Furthermore, lecturers in the university can play a role to guide the students in their effort to start-up their entrepreneurship career. On the other hand, the government needs

to ensure that sufficient training is provided to school drop-outs. As recommended by Ong (2008) and Ong and Hishamuddin (2008), the government should consider to establish an Entrepreneurship College to furnish them with technical skills for them to venture into entrepreneurship career and modern management philosophies as well as knowledge in information and communication technology (ICT). This effort enables the comprehensive nurturing of an entrepreneur rather than building a craftsman.

Nurturing entrepreneurial mindset among existing entrepreneurs and future entrepreneurs is critical because entrepreneurship is the most critical resources for SMEs to achieve sustainable competitive advantage (Alvarez & Busenitz, 2001; Mathews, 2002; Akio, 2005; Liu, 2006; Foss, Klein, Kor, & Mahoney, 2008). The requirement is that the owner managers must possess strong personalities in term of internal locus of control, need for achievement, innovative and creativity (Carland JW, Hoy, Boulton, & Carland JAC, 1984). These qualities of owner managers can lead to the achievement of competitive advantage for the SMEs and thus generate better financial performance, customer retention, and growth rate (Ong, 2008). From the macro perspective, enhancing SMEs performance will strengthen the economy of a nation and generate greater economic growth through enhancing the circulation of money within an economy and also to generate greater wealth to a nation through exporting the goods and services. Thus, the government should develop long term plan to develop entrepreneurial mindset among Malaysians.

#### *4.2 Efficient and Effective Government Assistance Programmes*

In view of the problems, the government needs to restructure the assistance programmes to enhance the potential of SMEs in Malaysia. First, the government assistance programme should be managed by only a few Ministries and agencies. The SME Bank should be made as the only body for SMEs owner managers to apply for financial assistance while MDeC concentrates on facilitate technical training and advisory to ICT-based SMEs and SMIDEC for other non-ICT SMEs. All these agencies should be placed under MECD and monitored by Bank Negara Malaysia and the National SME Development Council. The special assistance to *Bumiputera* can be facilitated through Majlis Amanah Rakyat (MARA), a government agency under the Ministry of Entrepreneur and Cooperative Development specifically to promote *Bumiputera* participation in commercial and industrial activities. Thus, this will send a clear message to the non-*Bumiputera* Malaysians that the funding and other SMEs assistance programmes are for all Malaysians SMEs. When all the assistance programmes are concentrated within few agencies, these agencies will have sufficient resources to carry out more effective marketing campaigns for their services, for example sending their staff to explain the programmes to the SMEs owner managers and potential owner managers such as undergraduates throughout the country. This will solve the problem of low awareness among the SMEs owner managers toward government assistance programmes thus improve their motivation to participate in the programmes. Besides, getting entrepreneurs who have succeed through the government assistance programmes for some road-show might be able to generate promising results.

#### *4.3 Strengthening Adoption of ICT among SMEs*

Training and experience in information technology will help the SMEs owner managers to improve their information technology competence (Ong, 2008; Ong & Hishamuddin, 2008c). However, the possibility of getting the existing SMEs owner managers for information technology training programme is challenging (Rosmini & Ahmad Zohdi, 2006). Thus, providing training on information technology is more relevant as long term planning and for younger owner managers who have considerable fundamental information

technology knowledge. The training should focus on using the information technology for strategic purpose rather than for operational purpose. For the older group of SMEs owner managers, advisory service rather than technical training for information technology would be more appropriate. The advisory service should focus on informing the SMEs owner managers on the benefits of information technology especially in term of their impact on profitability. This will ensure at least part of them will be persuaded to adopt some simple information technology for competitive requirement and send their employees for information technology training. Another possibility for the SMEs to excel in information and technology is through employing information technology experts to make strategic decision for the firm. However, this might required the owner managers to give out the portion of control over their SMEs.

#### *4.4 Enhancing the Competitiveness of Micro and Small Enterprises*

Micro size enterprises can hardly enjoy the advantage of smaller size firm due to too small in firm size and suffer the disadvantage of loosing economies of scale. Thus, the Malaysian government needs to face the reality that majority of SMEs in Malaysia fall into this category. Rather than masking the statistics by categorising all of them into category of SMEs, initiative should be taken to segregate micro size enterprises from SMEs and maintain a separate management to enhance the micro enterprises. Furthermore, government needs to segregate between the potential entrepreneurial firms with craftsmanship. This will not only enable more effective assistance programmes design for the development of micro, small and medium enterprises but also to direct the scarce resources to the right enterprises.

#### *4.5 Redefine the SMEs*

In addition, the National SME Development Council should also consider redefining the definition of micro enterprise to include the enterprises with less than 10 employees, especially for the category of manufacturing and manufacturing-related services. This is to follow the standard definition defines by many countries (see Dababneh & Tukan, 2007). Besides, the standard definition for Malaysian SMEs has indicated that manufacturing and manufacturing-related services have bigger size than service industry. Thus, the difference should also be reflected in micro enterprise rather than only in small and medium size enterprise. The better categorisation of the enterprises according to their size is critical to direct the right assistance to the right enterprises. For example, providing micro credit to a small or medium size enterprise will be ineffective as the amount of micro credit is too small to have any significant impact on the firm's performance. Conversely, asking a micro size firm to apply for higher amount of fund will not be viable as they do not have sufficient collaterals or track records to support the application. This is the main difficulty for Malaysian SMEs in assessing financing (Normah, 2005). Thus, accurately define the enterprises according to their firm size is critical to solve the fundamental problem of SMEs. By doing so, the right firms will get the right assistance to pursue the right strategy.

### **5.0 Limitations and Suggestion for Future Study**

The problem highlighted in this paper is obviously not comprehensive. Important issues such as the challenge of globalisation and monopoly from large firms are not included. This paper focuses on more fundamental problems and recommendations of Malaysian SMEs. In addition, many arguments in this paper were based on the authors' observation and experience when dealing with SMEs owner managers in the country. This preliminary discussion provides opportunity for future research since no statistical data and evidence are presented to support the arguments. If crisis represents an opportunity, then Malaysia should

grab the opportunity to strengthen the fundamental of its economy through strong based of SMEs. The solid foundation will help Malaysia to regain the status of “Asian miracle” prior to 1997 Asian economic crisis thus achieve the status of developed economy through Vision 2020.

## **6.0 Conclusion**

The Malaysian economy has gone through a few phrases of development since independence. Rapid industrialisation and participation in globalisation make Malaysia one of the “Asian miracles”. The 1997 Asian economy crisis alerted the Malaysian government on the need to develop a strong base of SMEs for sustainable economic development. Currently, although the portion of SMEs in Malaysia is similar to developed countries, their contributions to the economy are comparatively weak. This study highlights five fundamental problems in Malaysian SMEs, namely (1) the quality of SMEs owner managers, (2) the problems with government assistance programmes, (3) the slow adoption of modern technology, (4) the lack of competitiveness of SMEs, and (5) the definition of SMEs itself. The recommendations are directed to tackle each of the problems stated. Future research is needed to justify the arguments and thus helps to enhance the competitiveness of Malaysian SMEs.



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## Assessing Entrepreneurship and Micro Business Enterprise of Orang Asli Aborigines in Pahang, Malaysia

Abu Bakar Sedek bin Abdul Jamak,

Razol Mahari bin Mohd Ali,

Rohani binti Salleh and

Azrai bin Abdullah

Department of Management and Humanities, University Teknologi of Petronas (UTP)

Bandar Seri Iskandar, Perak, Malaysia.

### Abstract

The study was carried out to characterize and to evaluate the impact of cultural practices and entrepreneurial skills on micro business development among the *Orang Asli* aborigines in Pahang, Malaysia. The findings reported were obtained through a combination of quantitative and qualitative approaches with 100 aborigines practicing micro business enterprises, *Tok Batins* (village chiefs), and the government officers and workers of the Department of Aborigines' Affairs (JHEOA). The results revealed that the *Orang Asli* aborigines are no longer having superstitious beliefs of *pantang-larang* (prohibitions) for days, places or bad signs in cultural factors of business dealings. However, all of the aborigines interviewed do not have the business mindset to expand, diversify or take new opportunities and the *Orang Asli* are very laidback in nature. They are very relaxed and comfortable with what they already have. For the *Orang Asli* micro enterprises, there is no such thing as the pressure to make profit. The *Orang Asli* willingly accepted whatever they get from their businesses as providence. They also refused to be displaced from their present settlements and preferred doing business just for the sake of survival. Furthermore, they favoured to deal with the Chinese middlemen instead of dealing directly with end-users. As such, the big challenge is how to train them to be better micro business owners in terms of selling skills and satisfying customers' needs. Consistent repeated exposure to more methodically organized government programs are required as this study found out that they still have strong desires to improve themselves.

### Introduction

There are approximately 12 million indigenous people in the world that live in forests and depend on forest products. In Malaysia, the total aboriginal population comprises of 0.9 percent of the total population as reported by the APFT Pilot Report (Bahuchet, 1992). The statistics from the Department of Orang Asli Affairs or JHEOA of the 2004 classification of village data (JHEOA) shows that the total number of aborigines in Malaysia is **149,723** people and this consisted of only 0.06 percent of the total Malaysian population of 24 million. The Senoi aborigines make up the biggest number, at approximately 54 percent of

the total aboriginal population. In contrast, the Negritos and Proto Malays consist of only 7 and 39 percent respectively of the aboriginal population.

The *Orang Asli* aboriginal group in West Malaysia is a minority group in the multi-ethnic Malaysian society. *Orang Asli* means “original people” or “first people”. The *Orang Asli* comprise of three main tribal groups namely Negritos, Proto-Malays and Senoi, all three of which can be further separated into 18 dissimilar cultural-linguistic<sup>1</sup> groups. *Orang Asli* is not a homogeneous group. Each of the sub-ethnic group has its own language, culture, economy, religion, social organisation and physical characteristics (Dentan, Endicott, Gomes, & Hooker, 1997). The Negrito and Senoi speak a language that suggests a historical link with the indigenous people of Burma, Thailand and Indo-China (Nicholas, 1996).

Traditionally, the *Orang Asli* are hunter-gatherers, fishermen and arboriculture cultivators. According to the Department of Orang Asli Affairs (JHEOA), many attempts have been made to improve the living standard of *Orang Asli* in the region but there are not seemed much change has been observed over the years. Why are they slow in adapting the process of changing towards modernity? Recent studies show that the *Orang Asli* are gradually discarding their primitive economic activities to enter into diverse business areas such as retailing, tourism, vehicle workshops, food stall, logging and manufacturing. Government efforts in developing the *Orang Asli*, through the provision of basic facilities, regroupment and resettlement, have also gradually transformed the *Orang Asli* population. Repeated exposures to the government’s previous projects have impacted the *Orang Asli* to venture into very small-scaled business (micro) enterprise.

There is a lot of development taking place in the district of Rompin in Pahang State of Malaysia in the last few years. The town of Bandar Muadzam Shah, situated in Rompin, which is nearer from this *Orang Asli* community, is now a developed and a populated town with more than 50,000 people. Infrastructure such as a University, Research Centre and other Government institutions that have been developed in the area may have made big impact of the social structure of the *Orang Asli* nearby.

The study of micro enterprises of *Orang Asli* in Malaysia is not much known due to the lack of research that focused on their entrepreneurial abilities. This study, therefore, aimed to evaluate the characteristics of the *Orang Asli* who have ventured into micro enterprise business on their issues and challenges, impact of cultural practices and the entrepreneurial skills. The research also aim to identify the factors contributing to their lack of advancement in entrepreneurship and how to further push them towards improving standard of living.

The study is concluded with recommendations based on interviews with the 100 *Orang asli* respondents, village chiefs (tok batin), and government officers and workers from the Department of *Orang Asli* Affairs (JHEOA), with specific suggestions on how the *Orang Asli* may advance in micro business entrepreneurship.

Thus, for the purpose of this study, entrepreneurs may be broadly defined as individuals who manage a business with the intention of expanding that business and with the leadership and managerial capacity for achieving their goals, generally in the face of strong competition from other firms, large and small. In most small firms, especially the very small microfirms, the leading manager is also the principal owner. It is now widely accepted that, apart from the start-up phase, most small firms owner are more concerned about survival rather than growth *per se* and are often not especially entrepreneurial once they feel that they are

<sup>1</sup> *Most of them speak Mon –Kmer Language- showing an ancient connection with Mainland Southeast Asia to the north.*

established (Davidsson, 1987; Stoney, 1994; Gray, 1998).

According to National SME Development Council of Malaysia, for wider coverage and applicability, definitions of Small and Medium Enterprises (SME) will be based on two criteria, namely: 1) number of employees; or 2) annual sales turnover. Therefore, micro enterprises in primary agriculture and services are enterprises with full-time employees of less than 5 or with annual sales turnover of less than RM200,000.

## **Background**

### **1. The Economic Activities of the Orang Asli in Pahang, Malaysia**

A research conducted by Narifumi Maeda Tachimoto in 1965 found that the economic activities of the Jakuns were concentrated around locating and seeking resources from the forest. The trading of forest and agricultural products in the market resulted in a wider use of money. Subsequently, income generation grew in importance over traditional subsistence farming. Collecting and growing subsistence material required considerable time and patience. Forest harvests yielded immediate cash benefits, and these harvests were easily found and have not been exhausted as are the subsistence products (Tachimoto, 2001).

Earlier study by Man (1998) entitled "*Pahang Aborigines' Involvement in Businesses*", shows that the Orang Asli are gradually discarding their primitive economic activities in favour of retailing. According to the study, out of 34 samples, 97 percent of Orang Asli entrepreneurs are in the small retailers<sup>2</sup> industry, with a start-up capital of less than RM1,000.00. However, a majority of the people still depend on the forest in order to survive. This is, however, gradually changing due to their exposure to the 'world' outside and the new demands of the economy grow. Abu Bakar Sedek (2003) denote that Jakun and Semelai tribes of the Proto-Malays have entered into diverse business areas such as transportation, tourism, small auto workshops, restaurants, logging and manufacturing, in response to the changes brought about by the new millennium.

### **2. The entrepreneurial characteristics of the Orang Asli people in Malaysia.**

The major characteristics found in the *Orang Asli* aborigines are that they are self-reliant. Studies confirm this self-reliance, and the dislike of being controlled by others (Tachimoto, 2001; Man, 1998). This self-reliance is what leads the *Orang Asli* not to rely on subsistence agricultural products but instead generate cash from the harvests of the forests. Achom Luji, in a Forum entitled "*Aborigines Towards Vision 2020, and We Are Not Anti Development*", mentions that the aborigines should be free from developing an over-dependence on outside assistance, whether it be from the government or other parties (Ibrahim, 1996).

In the book called '*Orang Asli and their wood art*', Datuk Anthony Ratos revealed that barter trade remains the central point in their economy. The middleman is the banker and the orang asli, the supplier of forest produce. Today, the nomadic *Orang Asli* trap python and river turtle for the Singapore market and foreign zoos. They also trade in deer, an exotic delicacy sold at roadside stalls in Malaysia. The coastal *Orang Asli* catch crabs and prawns for coastal towns and for export.

### **3. The Orang Asli culture in Pahang, Malaysia**

A research on "Entrepreneurship among the Orang Asli Jakun (2003)" by Abdul Jamak A.B.S et al, it was revealed that the *Orang Asli* people have no religion. There are a small portion of them who have converted to become Muslims while a few others have reverted to Chinese traditions due to intermarriages. Almost

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2 *Small-scaled sundry shops.*

all of them are *animists*<sup>3</sup>. Their lives are influenced by nature-based superstitions, such as the hills, rivers, stones, and caves.

They believe good and evil spirits rule the aborigines' world and they believe that their villages will be in catastrophe if they do not follow, or if they go against, their traditional customs or what the Malays call "*pantang larang*" or *prohibitions* (Abdul Jamak A.B.S. et al 2003). Some spirits are associated with certain localities. These spirits govern the places they dwell in. For example, it is common practice to seek the approval of the mountain spirit before climbing a mountain. Similarly, rapids have their own spirits from whom permission must be sought before traveling through the waters to guarantee the safety of the people venturing into the spirit's territory.

### **Research Methodology**

#### **1. Research design**

The paper presents findings from a research conducted with permission by the department of *Orang Asli* Affairs (JHEOA) in Kuala Lumpur and in collaboration with the JHEOA branch office stationed in Rompin, Pahang.

The questionnaires' content and design were determined by consulting village chiefs (*tok batin*), officials from the Department of Orang Asli Affairs, and several other influential persons to validate the suitability of the questions within the context of the aboriginal environments. The survey contains questions to obtain the aborigines' point of views on issues related to cultural and business skills. The information was obtained using structured, semi-structured and open-ended questions and notes through interviews, typically taking more than half an hour by the author.

The questionnaire has of four major sections that are divided into sections A, B, C, and D together with the semi-structured questions. The first section is the demographic profile followed by the entrepreneurial characteristics, cultural factors and lastly business skills. With the exception of demographic profile, all sections utilised a 5-point likert scale for measurement.

Descriptive statistic is used to obtain the mean and standard deviation. The interpretation for the mean scores characteristics and cultural factors is based on table below:-

*Table 1:*

#### *Interpretation of mean scores*

<b>Mean score</b>	<b>Interpretation</b>
1.00 – 1.80	Strongly agree
1.81 – 2.60	Agree
2.61 – 3.40	Maybe agree/disagree
3.41 – 4.20	Disagree
4.21 – 5.00	Strongly disagree

In addition to the questionnaire, the study also uses qualitative in-depth interviews with *Tok Batins* and Orang Asli micro business owners to examine:

- i) their attitudes towards advancing in entrepreneurial capacities

<sup>3</sup> *believe that non-human objects have spirits*



- ii) their knowledge and skills in applying simple sales and marketing techniques to be more successful and achieve growth.

## 2. Study of Respondents of Orang Asli Micro Business Owners

Interviews were conducted in Rompin, Pahang only and involved with the Tok Batin, JHEOA's officers and workers, and 91 very small-scaled business enterprises of *Orang Asli* aborigines. With the assistance of an aboriginal guide, the author went to see the aborigine business people (micro enterprise respondents) at their settlements or business premises throughout the Rompin District of Pahang, Malaysia. It is estimated about ninety per cent of the *Orang Asli kampungs* or settlements in Rompin were visited by the author. Sometimes, during the author's visit, respondents were not available at their homes or business premises. Some *kampungs (villages or settlements)* that had not been visited were too deeply isolated that they could only be reached by river or through thick forests without proper roads.

The process of finding and locating the *Orang Asli* respondents was assisted by snowballing information, via referrals from the staff of JHEOA, Tok Batin, a hired *Orang asli* guide and a professional 4-wheeled-drive driver. The *Orang Asli* respondents owned predominantly very small businesses and located within the perimeter of their settlements or village. Almost all of the respondents were individuals with self employed businesses, some were limited to family businesses while a few others had employed less than five employees.

When asking questions to the *Orang Asli* respondents, the interviewers have to keep simple, easy to understand, no sensitive issues and make sure not to exert pressure for getting answers. The interviewers have to first introduce to them nicely through the guide and have chatting about other things before begin to ask the questions.

## Results

### A. Demographic profile of Orang asli aborigines

The general demographic profile of *Orang Asli* respondents have been summarised into eight different areas: age, gender, income, number of working days per month, educational background, religion, registration of business, preferred way of life and type of businesses involved in.

Respondents belong to the same average age category of 41-50 years old, with males outnumbering the females. The findings indicate that 68 per cent (62 out of 91) of *Orang Asli* respondents have a monthly income of less than RM 1000.00 per month, with a median income of between RM500 – RM1000, but the mixed-blood respondents enjoy a better median income of between RM1000 – RM2000 per month.

It also shows that most respondents have a poor educational background with the majority (73 per cent of the respondents) reaching only primary 6 education or below. Three mixed-blood respondents have attained higher levels of tertiary education. The majority of mixed-blood *Orang asli* enjoy better education and better standard of living as compared to the other *Orang Asli*.

The majority (90 percent) of the *Orang asli* are practicing their own ancestor's beliefs that is *animism*. Only a few of them are Muslims and Chinese. The *Orang Asli* practicing Chinese customs are either being mixed marriage by their parent or ancestors.

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4 also acted as an interpreter and introducer

Thirty nine (39) respondents accounting for 43 per cent of the respondents are pure heritage have registered their business licenses, and almost all mixed-bloods have registered their business.

About 70 per cent of all respondents prefer doing business and regard being self-employed businesses as a preferred way of life as compared to being farmers, hunters, fishermen or forest harvesters. Only one respondent would prefer to be a hunter, and two stated that they would rather source for forest-related products as a preferable way of livelihood.

The majority of the respondents, 56 per cent (or 51 out of 91) are involved in very small-scaled retailing (sundry shops) at their own village or settlement. All of them said that they dare not open their business outside the perimeter of their settlements. Most of them are satisfied with their present business performance and they seemed to be less or not ambitious to expand.

Fifteen (17 per cent) out of 91 respondents collect and sell agricultural and forest-related products as their sources of income. These types of businesses are done by several individual respondents in very small-scaled activities to get enough earnings for their family living. Some of them have been doing this for more than 10 years without any change or progress in this business. Some of these respondents were concerned about diversifying into other businesses due to scarcity of forest-related products from time to time. Most of the forest-related products are collected and sold to the Chinese middle men who are regularly servicing them.

#### *B. Entrepreneurial Characteristics and Cultural Factors*

With reference to Table 2, respondents are more inclined to "...try to improve and be more successful" (mean score of 1.97) rather than have the attitude that "What I have achieved is good enough and there is no need for improvement" (mean score of 3.06).

As denoted in Table 3, the *Orang Asli* are no longer believers of *Pantang-Larang* (the Malay phrase for prohibition), "prohibited days" (mean score of 4.79), "prohibited places" (4.31) and "bad symptoms or signs" (4.47) in doing business. Again, however, the standard deviation scores of more than one illustrate lack of focus.

To the respondents, doing business is not a barrier to their interests or way of life, and they would still continue being entrepreneurs even if their community or village peers don't provide sanction. The respondents strongly feel that the wife and children should be helping them in the business. Cultural factors are no more barriers in doing any type of businesses. The *Orang Asli* are more open minded when dealing with business transaction as long as they can earn a living. Any business dealing associated with exotic plants, wild animals or jungle land cultivations between the *Orang Asli* are not prohibited under the Malaysian laws. However, they are not allowed to do these transactions with non aborigines. This privilege has frequently been misused especially their business transaction with the Chinese businessmen.

<i>Table 2: Entrepreneurial characteristics</i>		
	Mean	Std. Deviation
Nothing has changed since I started my own business	3.02	1.41
I try to improve and be more successful	1.97	1.00
The business does not refrain me from farming/hunting/etc	1.95	1.18
What I have achieved is good enough and there is no need for improvement	3.26	1.36
The business will not stop me from pursuing my own interests	3.97	1.36
I don't care about the competition. I just concentrate on my own business	2.13	1.19

<i>Table 3: Cultural factors</i>		
	Mean	Std. Deviation
The business is not against my culture/beliefs	1.22	0.66
My village people do not stop/prevent me from being an entrepreneur	1.19	0.68
My village people always encourage me to do business	2.20	1.38
I must take leave from my business to attend social activities	3.36	1.59
Should my village people ask me to stop doing business, I will not do so	1.97	1.24
The business will not stop me from pursuing my own interests	1.96	1.25
I like to have my wife and children assist me in doing business	1.34	0.86
I believe there are days when doing business is prohibited	4.79	0.75
I believe there are places where doing business is prohibited	4.31	1.28
Should there be bad signage/symptoms, I might just stop doing business.	4.47	1.09

*a. Interview with Tok Batins*

One major theme that kept recurring in the interviews with the *Tok Batins* ( $n = 5$ ) was that the aborigines are nature lovers. Many of the aborigines that received training and formal education from the government and initially posted in major towns in Pahang or in other states would eventually find themselves back within the perimeter of their original settlements. One of the *Tok Batin* related the story of one *orang asli* who went on to become a MARA<sup>5</sup> officer and later took up a post in the council's head office in the city of Kuala Lumpur, the national capital of Malaysia. For many Malaysians, securing employment with a government agency such as MARA, holding a post as an officer and living in a big city, is by all means a measure of success. Nevertheless, according to the *Tok Batin*, after fifteen years this particular MARA officer requested

for a move to another office in the much smaller town of Bandar Muadzam Shah, in the district of Pekan, Pahang. The *Tok Batin* was proud to relate that despite still holding his post, the MARA officer did not live in the town of Bandar Muadzam Shah but rather chose to live in his native settlement and make the daily 150 kilometre-commute to and from his office in Bandar Muadzam Shah.

The MARA officer is just one of the many examples of aborigines who had the opportunity to leave their settlements, left, but in the end finding themselves back within the compounds of their ancestral homes. Other stories from other village chiefs included the stories of a teacher and a draughtsman who both quit their jobs to return to their roots – hunting and being one with their natural surroundings.

<sup>5</sup> The **Majlis Amanah Rakyat** (*People's Trust Council; commonly abbreviated as MARA*) is a Malaysian government agency formed to aid, train, and guide Bumiputra (Malays and other indigenous Malaysians) in the areas of business and industry.

The interviews also revealed that aborigines who did not have any opportunity to venture out of the settlements would never go out beyond the boundaries of their settlements. The aborigines who had received entrepreneurial training from the government through the office of JHEOA would not expand their businesses outside of their settlements. This poses a big challenge for the responsible government agencies to create successful entrepreneurs who would go out and venture outside of the settlement areas.

Another recurring topic that the *Tok Batins* related during the interviews was the economic activities of their people. Being hunter-gatherers by tradition, many of the aborigines make their livings off the resources found in the jungle. They would spend weeks and sometimes even months trekking in the National Forest (Taman Negara) sometimes to as far north as Perak and as far east as Terengganu and Kelantan, surviving only of the resources they find in the jungle. They would look for herbs and other valuable jungle vegetations as well as protected species of exotic animals such as porcupines, parrots, canaries and wild boars to bring back as their trade. However, the aborigines do not directly sell their goods to customers (or end-users). The products they collected from the forests are sold to Chinese middle-men who would then take the herbs and animals to prospective buyers.

The *Tok Batins* also reported of the roles that Chinese middle-men play in the *orang asli* community. Many of these Chinese middle-men have married aborigines. With the inter-marriage, the middle-men are able to share the privileges that have long been exclusively enjoyed by the aborigines of Pahang such as the rights to land within the preserved area of the forests surrounding their settlement areas. The authorities have long been very relaxed with the aborigines concerning the use of the land within the protected rain forests of Malaysia. The aborigines have the freedom to hunt and cultivate land within the protected boundaries of the National Forest. According to one of the *Tok Batins*, the Chinese middle-men would use their aborigines' wives' names to clear land within the forest sometimes up to 100 acres for oil palm cultivation. The village chiefs would also sometimes apply for FELDA<sup>6</sup> (oil palm) and RISDA<sup>7</sup> (rubber) plantation schemes. The revenue from these schemes is distributed equally to every household in the settlement. Their income from these schemes is between RM300 to RM1000 every month per household.

*b. Interviews with Orang Asli micro business owners.*

Most of the *Orang Asli* micro enterprises set up their businesses along the roads between the town of Muadzam Shah and the towns of Kuantan, Rompin and Pekan. The *Orang Asli* businesses are housed in simple huts with thatched roofs along the said stretch of roads. These shops sell a wide range of jungle products ranging from ornamental trees to rare and exotic animals. Among the items that can be found in these simple establishments are timber wood products, orchids, ferns, tapioca, parrots, canaries, porcupines, mousedeers, fresh water fish and prawns as well as the popular jungle herbs such as tebu gajah (*Albizzia myriophylla*), ubi jaga (*Smilax myosotiflora*) and tongkat ali (*Eurycoma longifolia*) and *pasak bumi*. The *Orang Asli* usually sell these items on behalf of their relatives who are the actual hunter-gatherer. However, despite the wide variety of products available, each of these small shops usually focuses in selling a certain type of products only. For example one shop might only sell tapioca while another might sell only ornamental trees and another shop selling only exotic animals. One other interesting observation is that this focus is also unique based on the location of the shops. For instance, along the Muadzam Shah and Rompin stretch, all

6 Federal Land Development Agency

7 Rubber Industry Smallholders Development Authority

the *orang asli* roadside shops concentrate only in selling tapioca while along the Muadzam Shah, Kuantan and Rompin route most of the shops sell fresh water fish, prawn and ornamental trees. Rare and exotic animals can usually be found sold along the Muadzam Shah-Kuantan road.

Another common practice would be for the *Orang Asli* to find these jungle products and sell them to Chinese middle-men who would later sell those products to their own clientele. Sometimes the *Orang Asli* would ask their customers what they want and would go into the jungle to fill in the request their customers have made. Some of the *Orang Asli* also cultivate their own crops such as tapioca, jungle fruits like durian, jering and petai and sell these crops on their own. Another economic activity that is popular amongst the *Orang Asli* is working as tour guides. Being well versed with the lay of the forest, the *Orang Asli* tour guides are popular amongst local and foreign tourists who want to hike or go for jungle trekking, mountain climbing or even for those who seek a relaxing place by the creek or waterfalls to have picnics or other recreational activities. Sometimes the aborigines also act as guides for hunters who require the aborigines' expert knowledge of the geography as well as animals in the forests. The aborigines need not advertise their services as guides. Most of the time, tourists, adventure seekers and hunters alike, would approach the *tok batins* and the *tok batins* will assign them to the respective parties.

One of the challenges is to train the *Orang Asli* to become good salesmen. One of the reasons is that the *Orang Asli* are very laidback in nature. They are very relaxed and very comfortable with what they already have. For the *Orang Asli* micro enterprises, there is no such thing as the pressure to make profit. The *Orang Asli* willingly accept whatever they get from their businesses as providence. They would be quite contented to make enough money to make it through the day.

The other reason that might pose as a challenge in training the aborigines to become good salespersons is the fact that they do not know the practice of negotiating or haggling for prices with potential customers. As a case in point, the author tried to haggle for the price of tapioca at one of the roadside stalls and was only met with silence. The micro business owners do not seem to know how to deal with hagglers. If a potential customer were to negotiate the price of an item, the micro business owners will either only keep quiet or in certain instances will totally ignore the customer, or sometimes they will tell the customers that the prices have been set by their suppliers (their relatives) and the owners would have to refer to the suppliers first before the prices can be changed.

Another unique practice of the *Orang Asli* micro enterprises is the way they pack – or this case, the way they do not pack – the items sold to the customers as experienced by one of the authors himself. On approaching a business owner selling tapioca, the author, after failing to haggle over the price of the tubular plant, agreed to make the purchase of a kilogram of the tapioca. Upon receiving the customer's request, the business owner simply gathered the tapioca, and without the aid of any weighing machine, made a guesstimate of the weight of the tapioca just by using his hands. After being satisfied that the tapioca in his hands weigh about a kilogram, the *Orang Asli* instructed the author to pop open the car trunk and simply proceeded to place the tapioca inside the car trunk – without putting the tapioca in any form of bags or wrapping them in anyway or even tying them up together with a piece of string.

The *Orang Asli* businesses are often either self-financed or family financed or some resort to loans from the middlemen. Most of them are poorly educated and furthermore lack of training skills. Moreover, several

respondents have the idea of expanding their businesses but are unable to do so due to lack of confidence, trust, and feeling inferior. As such they prefer to stay on at their own settlements.

## **Discussion**

### *General characteristics*

The study shows that mixed-blood *Orang Asli* are better in terms of overall educational background and income level than the pure-blooded *Orang Asli*. The overall findings from the observations and interviews revealed that mixed-blood *Orang Asli* are more open minded in their thinking abilities, have better living standards and are inclined to be more business minded as compared to the pure-blooded *Orang Asli*.

The study revealed that most respondents have a low educational background with the majority reaching only primary 6 education or below and three mixed-blood *Orang Asli* respondents who have attained higher levels of tertiary education.

Approximately 90 percent of *Orang Asli* respondents have household income less than RM2,000.00 per month, 75 per cent of these respondents earn less than RM1,000 per month, while 40 percent of them live on less than RM500.00 per month. One of the factors which contribute to the low income problem is the small population of a *kampung* (village). According to the data on population size of the *Orang Asli* settlement area for the Rompin district, the *Orang Asli* population of a *kampung* is so small in number that the biggest population size is 1,328 people in RPS Bukit Serok and 1,158 in RPS Kedaik.

From the survey conducted 56 percent of the *Orang Asli* respondents venture into very small scale retail sector. The businesses conducted by *Orang Asli* entrepreneurs are very small in scale and relatively uneconomic to be sustained in the long run. Some of the retailers do not survive because of uncollected debt payments from the customers. This is because some of the *Orang Asli* retailers open their business in the settlement area due to social obligation rather than profit maximisation. Furthermore, with a small population size, the *Orang Asli* retailers have to compete with each other just to get a portion of the small market. For example, there are 4 very small retail shops in RPS Buluh Nipis, and a population of only 81 families (345 people).

The *Orang Asli* prefer to venture into very small-scaled retail businesses (sundry shops), doing odd jobs or taking up contract work within their settlement's perimeters. They have the ambition and desire to move into bigger businesses, but their business knowledge and educational background are insufficient and more importantly, they are not prepared to take the risk to realise their dreams of becoming successful entrepreneurs. However they also exhibit characteristics of *Orang Asli* in this study, such as prohibitions in cultural factors among older generation, inferior mind set, low awareness, preference for confining business to their own locality and hopeful of business support from government agencies.

The findings indicate that although the respondents are willing to spend more time working, they still failed to progress further in business. The extra time does not translate to higher income, mainly due to lack of guidance and direction in expanding and diversifying into other businesses or territories.

### *Orang Asli Customs and Cultural beliefs*

At present, the *Orang Asli* aborigines are changed people, they are no longer influenced by superstitious beliefs in their daily business dealings. For their daily livelihood, they have set aside some cultural values,

such as ignoring orders from their peers or heads to stop doing business. Only a few of the older, pure *Orang Asli* entrepreneurs still have the superstitious beliefs of prohibition (*pantang larang*) on days, places and signs, but the younger generation of the aborigines refuse to be influenced by such beliefs.

On further examination of the sample of the *Orang Asli* population, it was found that they have strong desires to improve themselves, and as such are willing to participate or apply for any government projects as long as it benefits their livelihood and hence, standard of living. They are also more willing to mix with outside people or other races especially Chinese and Malays when it comes to business dealings or working odd jobs with non aborigine employers to earn a living.

The challenge is, as quoted by Datuk Anthony Ratos in his book called "Orang Asli and their wood art" page 26, one reason for their unchanging lifestyles could be the lure of the wild. "The forest, the mountains, the rivers, the flora and fauna have a strong pull in the daily life of the Orang Asli. They work for a period and feel the urge to 'balik kampung' ('go home') to hunt, to fish, to trap, to be free to roam the jungle. I shall illustrate this factor by one example. I took Johari bin Yit, a Semelai youth, into my care and schooled him at St. John's Institution (Kuala Lumpur). Thereafter he got teaching certificate and, after two years, he left government service to return to his Semelai tribe at Tasek Bera (Pahang)".

### *Micro Enterprises*

This research gauged the entrepreneurial capacities of these very small business enterprises of Orang asli. It was revealed that they have lacked in many aspects such as poor sales and marketing skills, inability to recognise opportunities, decline to change, and lack of selling skills. They do not simply have the qualities of successful entrepreneur but they are more concerned in running daily life for comfort and survival. Based on the interviews, the Orang Asli refuse to be displaced from their present settlements and are not ready to diversify and expand their businesses to the towns or other urban areas.

The Orang Asli aborigines have transformed themselves, they have begun to be less dependent on forest-related products for their livelihood, and are replacing this with their own businesses or doing contract work or odd jobs. Alternatively, many younger generation of Orang Asli are more willing to seek employment outside the perimeter of their settlements for survival and are less dependent on forest produce. The scarcity of forest produce have forced them to find alternative ways to earn a living such as starting up new businesses, seeking employment from non aborigines, farming, rearing and taking up odd jobs.

In many instances, they are willingly to carried out any tasks required by their clients such as Chinese middlemen, tourists, hunters, loggers, jungle items collectors, poachers, mountain climbers and any government officials in exploiting and using their abilities for romping forest reserved land and jungle.

### **Conclusion**

The research findings provide important new information on the characteristics and cultural development of *Orang Asli* of micro enterprises, to parties who are concerned about their progress.

The findings have insightful implications for government administrators especially those who are attached to institutions that help the government formulate plans and policies to help the *Orang Asli*.

Significant points that can be drawn from the study are: -

- a) The emergence of mixed-blood *Orang Asli* aborigines who are more dynamic than the pure-blood *Orang Asli* in terms of entrepreneurial characteristics and interest. Although, mixed and pure *Orang Asli* share the same cultural and ethnic beliefs, the mixed-blood *Orang Asli* enjoy a better standard of living through their better understanding of business matters. In fact, some mixed *Orang Asli* have improved largely due to inheritance, and taking over the family business. The achievement of the mixed aborigines in business is better than the achievement of the pure *Orang Asli*, as can be seen from their higher median income of between RM1,000 – RM2,000, and also from their higher rates of business registrations (24 out of 26 of them own registered businesses). The mixed-blood *Orang Asli* are more serious minded about pursuing an entrepreneurial track.

The Aboriginal People's Act (Act 134) indicates that non-aborigines are not allowed to adopt *Orang Asli* children and removing them from their native homes. Thus, it is highly encouraged to promote the present *Orang Asli* for more intermarriage with other local people in getting better chance of future dynamic generation of the aborigines.

- b) The government should extensively pursue programmes that allow for mental exposures of the *Orang Asli* to modernity, and include all layers of the community, not just the tribal chiefs (tok batins). Once the *Orang Asli* can appreciate the benefits of modern life, they will be more ready to compete with others and establish an independent society. It is highly recommended that the government should allocate a few staff from the department of *Orang Asli* Affairs to stay along side the *Orang Asli* communities in their settlements to facilitate change and transfer of knowledge for modernizing them.
- c) On further examination of these respondents, it was found that they have strong desires to improve themselves, and as such are willing to participate or apply for any government projects as long as it benefits their livelihood and hence, standard of living. Nowadays, they are more willing to mix with outside people or other races especially Chinese and Malays when it comes to business dealings or working odd jobs with non aborigine employers to earn a living.

With education and exposure to urban people, many *Orang Asli* have eventually discarded their primitive jungle activities to look for desired jobs in the town to emulate the fashionable clothes, television sets, handphone, car and motorcycle of the urban dweller. Education, healthcare, telecommunications and the likes have improved the livelihood of the *Orang Asli*. The government and other related organizations have made a massive effort to improve and upgrade the living standards in the *Orang Asli* settlements and villages. However, the scale of the problems, the lack of dedicated staff, training methods, mind opening operandi and above all, funding hinder the progress of these efforts.

- d) In driving them to be better income earners, the government and the agencies have to consider providing equal opportunities in employment and business available as what have been given to other non aborigines. More funds must be allocated to provide better infrastructure in terms of roads, clean water supply, electricity, education and this will allow better access for





modernization. Extensive skills training in business management and agri-business have to be increased to support entrepreneurial exposure.

- e) The *Orang Asli* still depend on help and assistance in terms of monetary and skill training from government agencies to ensure their businesses progress. Government assistance should not only be targeted to established *Orang Asli* entrepreneurs and village chiefs but also be extended to all interested level of *Orang Asli* of smaller rank. More exposures through entrepreneurial trainings and thinking seminars should be stressed as the *Orang Asli* are lowly educated people.

Repeated exposures to the government's previous programmes have impacted the *Orang Asli* to venture into entrepreneurship but the development need to be more aggressively done. Their awareness of the present economic environment has increased their willingness to readily accept change.

Since this is one of the few studies about micro business management among Malaysian aboriginals, it is hoped that these results will form the basis for further research to enable more to be made known about micro business enterprise and the aborigines in Malaysia.



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## Mechanisms for Seeking and Developing Young Entrepreneurs in Kuwait and the GCC Region

Dr.Nasreddine Saadouli

College of Business Administration, Gulf University for Science and Technology

PO Box 7207, Hawally 32093, Kuwait

saadouli1971@yahoo.fr

### **Abstract:**

**Introduction:** Kuwait, like other GCC states, is facing the challenge of providing employment to an increasing number of national job seekers. The government systems and enterprises are no longer able to absorb the ever-growing numbers. To deal with this sensitive issue, Kuwait is embarking on a path of encouraging the private sector to aid the government in providing employment opportunities. Research has shown that entrepreneurs play a significant role in developing the private sector and in involving a significant number of job seekers in the economic cycle. **METHOD:** This research manuscript tackles the issue of entrepreneurs in Kuwait. In particular, a methodology for the effective screening, building, and developing of entrepreneurs is presented. Empirical data, both primary (survey) and secondary, is collected and analyzed to validate the approach presented and an action plan for the implementation of the procedures is outlined. In particular, two groups are investigated, the entrepreneurs to gauge their experiences, and the potential entrepreneurs to assess their expectations.

**Results:** Emphasis is placed on developing constructs to achieve the afore-mentioned objectives. The role of the females in entrepreneurship and in developing the private sector is also investigated. The main results indicate that the female population is significantly behind when it comes to entrepreneurship in Kuwait. Furthermore, they do not seem to possess several of the characteristics manifested by existing entrepreneurs or uncovered in secondary data from other research.

**Conclusion:** Kuwait and other GCC countries should adopt a more active approach to involve female potential entrepreneurs in the economic cycle. Furthermore, a continuous monitoring and guiding of the inducted young entrepreneurs is necessary to ensure long-term success.

**Key words:** manpower growth, manpower restructuring, developing economies, Middle East, entrepreneurship, small business management

**Introduction:**

Kuwait, just like other GCC nations and many developing countries, is facing the reality that its young population is reaching the age of employability. Kuwait's population has more than 60% below the age of 25 years and 20% is between the ages of 15 and 25 (PACI 2002.), see Figures 1 and 2. This fact is posing questions that were not addressed in the past, in particular the issue of providing adequate jobs to the increasing number of national job seekers. The GCC states have relied extensively on oil revenues to provide jobs within the government systems and enterprises. However, the influx of new entrants to the national labor force is rapidly exceeding the governments' ability to absorb these numbers. Turning to the experience of developing countries, it has become evident that the private sector has to play an important role in this effort. Consequently, several GCC nations, including Kuwait, are embarking on new paths towards the "nationalization" of the labor force. Part of the nationalization effort focuses on giving priority to the national applicants in all government-related enterprises and systems. The other is to entice the private sector to also follow suit and give priority to nationals. There are several challenges to this paradigm which will be uncovered thoroughly in this manuscript. However, it is safe to say that there are two main obstacles.

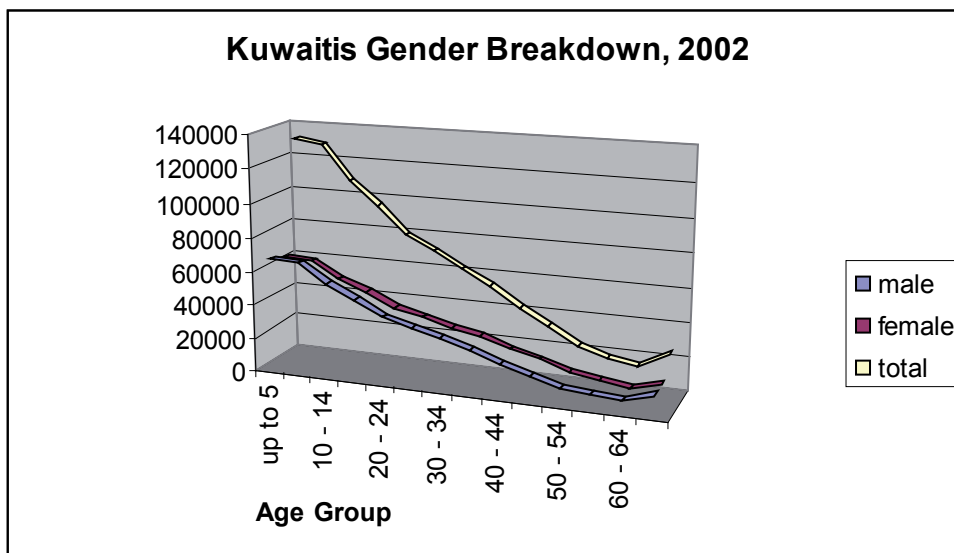


Figure 1. Kuwait's population by Age Group and Gender Breakdown

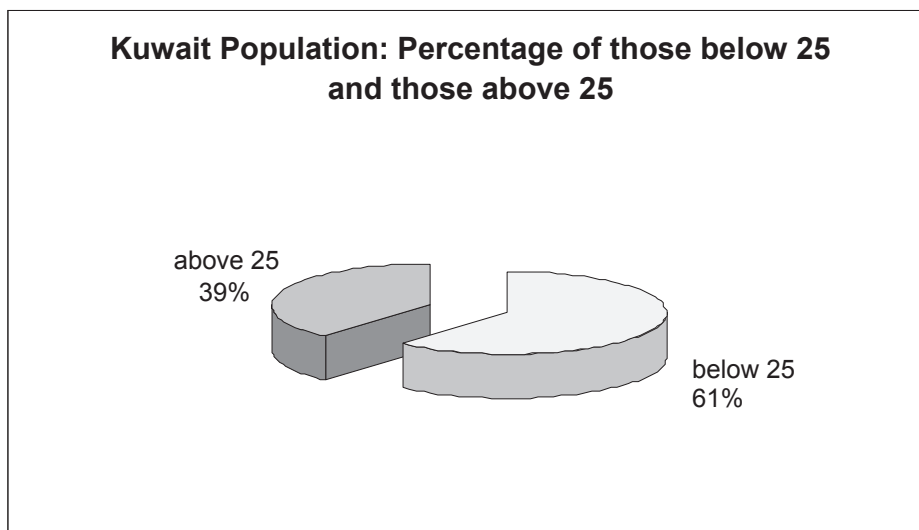


Figure 2. Kuwait's Young Population

The first is the nationals' ability to handle the demands of a private sector job in terms of the educational and experience qualifications; the second is the willingness of the national applicants to accept terms and remuneration that maintain the standard of living that they grew accustomed to. The private sector's objective is to control costs for the purposes of higher profits. The issue of social responsibility is not as developed yet.

The availability of funds in the GCC nations led the decision-makers to determine that encouraging young entrepreneurs to start new businesses is vital to the development of a significant private sector. The mechanisms for such attempts have been faced with numerous challenges. A thorough and objective analysis and methodology are required for such a venture to succeed. It is the objective of this manuscript to provide a systematic look at the procedure of screening, building, and continuously developing entrepreneurs in order to partially solve the issue of getting the national labor force more actively involved in the economic cycle of Kuwait and its neighboring GCC states.

### ***The changing Economical landscape in Kuwait and the GCC***

The economical landscape cannot be objectively discussed without a relevant discussion of the social and political trends.

#### *Social trends*

Kuwait's population is a young one. The number of new comers to the national labor force is increasing rather exponentially from year to year (PACI 2006). The increase in the labor force is coupled with a change in the characteristics of the newcomers. First of all, the new wave of job seekers is relatively more schooled, not necessarily educated, due to the fact that education in the GCC countries is free and the fact that a significant number of citizens are able to afford private education if they so desire. This characteristic placed the pressure of not only thinking of providing jobs but more importantly providing adequate jobs. The growth in the government systems and enterprises is not matching the growth in the population of job seekers, despite the fact that the GCC economies are among the fastest growing in the world due to the tremendous increase in oil revenues in the last decade ([www.opec.org](http://www.opec.org)). The second important trend to observe is the tendency of the society to open up to outside influences, in particular the western influence which presented a demanding way of life that is entrenched in consumerism.

#### *Political Trends*

The GCC countries share a similar system of government that is based on the autocratic model. Whether it is a kingdom or an emirate, this model is built on the cultural roots of the societies that are not participative in general. Moreover, the social structure imposes a strict hierarchy that has left its marks on the political system as well as the economical system. However, the winds of change are blowing, and many of the GCC countries are deciding that it is time to develop a more participative system of government. Kuwait was among the first to introduce a parliament that is directly chosen by the people. Other countries are following suit and are actively enacting laws to involve the people in the government. This trend has significant implications for both the government and the civil society. For the government it means that its control on the economy and consequently the provision of jobs to its citizens has to be revisited. For the civil society, it means that with more freedom comes more responsibility. The society can no longer depend on the

government to provide it with the employment needs. It has to take an active part in this regard. The private sector is the civil society's arm to participate in this effort. Its role in absorbing the ever-growing number of job seekers cannot be undermined.

### *Economic trends*

The economic trends can hence be classified into the following three main categories.

#### *Privatization*

In order to relieve itself from the burden of managing and continuously financing national enterprises, many governments are privatizing several industries. The purpose of privatization is to continue to offer the vital products and services in a more competitive and accountable environment. The experiences of privatization in many developing nations give mixed signals and this issue will be tackled more extensively in the body of this research manuscript; however, it remains one of the key directives for many countries

#### *Globalization and Free trade*

Globalization is a fact. Whether we like it or not, it is here and it is here to stay. The forces of globalization have uncovered a number of issues that were hidden by the deliberate attempt of nations to protect their borders economically and otherwise. The consequences for businesses that were operating in protected environments are grave as they did not develop the necessary competitive tools to survive in a diverse and severely competitive environment. This also led to the push towards free trade. The WTO requires states wishing to join its system to have free trade laws. Free trade and globalization have placed significant pressure on governments and the private sector to look for the best alternatives to balance the government's traditional role of providing to its citizens and the realities of the new world. GCC countries have already in place a number of agreements amongst them in terms of facilitating trade. Some also have bilateral agreements with developed countries such as the United States and some European countries.

#### *Diversification*

Kuwait was among the first oil-rich countries to realize the risks of relying entirely on oil revenues, which account for about 65% in Kuwait (Fazano & Iqbal 2003). Its leaders were pioneers in developing alternative forms of revenue in the form of investing the accumulated wealth in diversified industries around the globe. Kuwait's investment authority, Abu Dhabi investment authority are only two examples of how many GCC nations are looking seriously at the possibility of the depletion of the oil reserves and trying to build an infrastructure that will maintain the adequate functioning of the state. Bahrain is trying to develop itself into the financial hub of the gulf area. Dubai has successfully become a world-class tourism and trade center. Kuwait has not yet determined a positioning for its role in the GCC despite enacting a number of laws to attract foreign investment and to encourage entrepreneurial ventures.

### ***Impact of political and economical reform on national employment***

It follows from the discussion above that the political and economic reforms have a significant impact on national employment. To review the impact of the above mentioned factors and trends, I will classify the impact on national employment into three main categories:

#### *The Change in the employment landscape:*

The growth in government jobs versus that of the private sector is starting to tilt towards the private sector. The enactments of the different laws and the various incentives facilitating private sector involvement in the economic cycle have led to a tremendous growth in the number of private businesses. The nature of these businesses is still mostly merchant-family owned. In other words, the opportunities open to prospective entrepreneurs are limited to the few well-known merchant families that have built over the last few decades strong quasi-monopolistic entities. Regardless, the growth in the number of jobs in the public sector is far lesser than its private sector counterpart. The private sector has generally more pressures towards cost control and would consequently favor importing cheaper labor from different parts of the world. The government has passed regulations to force the private sector to give priority to national applicants.

*The changing requirements for national candidates:*

Public sector jobs in Kuwait are mostly viewed as a means to distribute the oil revenues. Consequently, the public sector, or government job, carries a much higher welfare attachment than actual demands on qualifications. This is changing both in the public and the private sector. In the public sector, the government is realizing that in a competitive new world, government systems must perform at a higher level of effectiveness and efficiency. In the private sector, the requirements are even stringer since profit is the name of the game. Nationals applying for the private sector have to compete with, generally, much more educated and experienced expatriate labor force that is willing to work for a lower remuneration package. To be able to compete, the national job seeker has to simultaneously elevate his/her educational and experience levels, and may be willing to give some concessions regarding the remuneration. The government has stepped in to ease this transformation by providing private sector national employees the same benefits that those working in the public sector get. However, this will have to be eventually dealt with as the burden cannot be carried by the government indefinitely. The pressures on Kuwait and the GCC states are growing to raise the standard for the expatriate labor force.

Another important factor is that as the business world becomes more complex and more competitive, the basic requirements are increasing. The demand for skilled and professional employees in the private sector is growing at a faster rate than the demand for the clerical-type positions that the nationals have enjoyed in the public sector.

*Effect on remuneration and standards of living:*

The generous remuneration packages that nationals got acquainted to in the public sector have created a benchmark against which nationals weigh their employment options. The impression is that accepting lower packages leads to a lower standard of living. This is a misconception since there is more accountability in the private sector, and there is hence more room to grow and improve. In a sense, the attitude towards work needs to change and is starting to change. Work was mainly viewed as a means to justify getting a share from the national oil wealth in return for some service. The view has to change to reflect the more realistic meaning of work as a means of personal development and growth. The implications for this are a serious change in the attitude towards work from apathy to commitment.

***The role of the private sector in the economical reform***

The role of the private sector in the economical reform cannot be undermined. As stated previously, the government systems and enterprises cannot absorb the growing number of national job seekers.

Furthermore, the role of the private sector in developing businesses that are distinct from the mostly public-service oriented enterprises makes the private sector a vital element in any reform effort. Drawing from the experiences of many developing countries, it becomes evident that the private sector holds the key to this pressing matter. For a discussion of the importance of the private sector, consult the Youth Employment Network, for instance their 2005 newsletter (YEN 2005). This important role can be classified into three major categories:

#### *Absorbing the growing number of national job seekers*

The International Labor Organization (ILO) in a report published in 1999 states that SMEs and consequently private entrepreneurs hold the key towards full employment. It is no different in Kuwait. The growing number of job seekers cannot be effectively absorbed by the public sector.

#### *Enforcing higher recruitment and educational qualifications and standards*

In its thrust towards more efficiency and profitability, the private sector will generally put in place stricter recruitment requirements. These will emphasize higher educational and vocational levels. This will necessitate a transformation in the current educational system to graduate a more employable generation ([www.worldbank.org](http://www.worldbank.org)).

#### *Investing in specialized industries*

There are several industries that the public sector would not generally consider investing in. This is due to either the fact that it does not provide a necessary public service, or simply due to its niche structure. Such industries include many of the service industries that make up a significant portion of the Kuwait and World economy for that matter.

### ***The role of entrepreneurship in developing the private sector***

The private sector, by definition, is the result of private entities investing in the economy. Consequently, most private sector businesses came to existence as an entrepreneurial venture. However, in the case of Kuwait and the GCC in general, this definition is faced with some hard realities. Entrepreneurship is ideally is a universal characteristic. The fact is, however, that most private businesses in Kuwait and the GCC are owned, and to some extent monopolized, by established large merchant families. These large families, with their tremendous access to resources and decision makers, make it appear almost impossible for other entrepreneurs to find their way. This is where the government's role is most felt when it comes to stirring the private sector through independent entrepreneurship that is open to all who have the necessary qualifications, and not the necessary family ties. The mechanisms for this approach will be discussed in detail in this paper

### ***Entrepreneurship and the challenges of the Kuwait and the GCC culture***

#### *Entrepreneurship: Literature Review*

There isn't a unique definition of entrepreneurship. The Longman dictionary of American English defines entrepreneurs as people "who start a business, arrange business deals, and take risk in order to make a profit (Longman Dictionary 2000). Entrepreneurship may have existed since the ancient Greek times. Zanakis et al. (2003) provide evidence of ancient Greeks' practices in public and entrepreneurial



decision-making. In a philosophical context, an interesting metaphor for entrepreneurship is presented by Stewart (2001). In this rich and stimulating paper, Stewart interprets entrepreneurship as a form of leadership found in many contexts, and that both entrepreneurship and leadership share some common skills such as coping with ambiguity and contradiction, and using social networks to build coalitions and mobilize. In a review of the 1979 book on entrepreneurship by Schollhammer and Kuriloff, Merrel Arnold (1980) raises the question of difference between the student of entrepreneurship and the entrepreneurial personality. He argues that the psychological difference between the two sets makes them mutually exclusive. While most agree to the risk-taking assumption regarding entrepreneurs, many disagree on the determinants of entrepreneurship. Miller (1983) looks at three presumptions regarding entrepreneurs: those that argue that personality traits are the most important, those that argue that the organizational structure is most important, and still those that argue that it all comes down to strategy making. He concludes that regardless of the determinants, any program to support entrepreneurs must take into account the nature of the firm. Mosakowski (1998) looks at the issue of whether the locus of the entrepreneurial resources is with an individual or a team, and investigates the effect of the success of firms with these two types of entrepreneurial resources. There is also significant evidence that entrepreneurship and economic growth are correlated. Furthermore, entrepreneurs and potential entrepreneurs need help to execute their ideas and build successful businesses (Bridges.com 2002). The report provides some striking examples of the importance of entrepreneurship in creating new jobs. One such example is that venture-capital-backed companies contributed 7.4% of the GDP of the United States in 2000. Shane (2000) shows that discovering opportunities by entrepreneurs is much dependent on the entrepreneurs' prior knowledge and experience. He consequently argues that the source of entrepreneurship lies in differences in information about opportunities. Azoulay and Shane (2001) further show that successful and failed entrepreneurs possess different information about how to design contracts. Hence, they argue that entrepreneurs who fail to economize on agency and transaction costs are selected out. Shane and Cable (2002) demonstrate that direct and indirect ties between entrepreneurs influence the selection of ventures to fund through a process of information transfer. Shane and Stuart (2002) argue that the social capital of the company founders plays a significant role for early-stage organizations. Empirical tests to predict the creation of new firms based on individual characteristics have failed to provide any meaningful explanatory power (Shane 2001). For these reasons, research is showing that entrepreneurship can, and should, be taught. In Europe for instance, more than 60% believe strongly that entrepreneurship should be an integral part of any curriculum (Wilson 2004).

### ***Challenges to Entrepreneurs in Kuwait and the GCC***

There is no doubt that there are challenges to entrepreneurship everywhere in the world. However, the developing countries, including Kuwait and the GCC states, have a heavier burden to alleviate when it comes to this issue. Kuwait, being a part of the Arab and Muslim worlds, has significant challenges to speak of. One can argue several classifications; however, it may be prudent to classify these challenges into three main categories: cultural, economical, and educational.

On the cultural dimension, Kuwait's culture is built around the notion of being good followers. The early tribal roots of the system have a predetermined role for the members of the society, where entrepreneurship and creative initiative does not carry a significant weight. Furthermore, the society is male-dominated, whereby the Females role in business has been generally kept to a minimum. This draws from the society's

interpretation of protecting its Female component.

On the economical dimension, Kuwait's economy has been dominated by few powerful merchant families. Consequently, the majority of private businesses are started by members of these families in a rather systematic manner where the issue is not much about entrepreneurship but rather about carrying the legacy of the family. It is hence much more difficult for nationals from small families to lay a claim to capital and bring their entrepreneurial ideas to life. The other significant factor is the fact that most Kuwaitis believe they have a rightful claim to the oil wealth and feel that the government is responsible for their complete welfare. This has created a sense of reliance where the entrepreneurial spirit does not grow and prosper.

Last but not least, on the educational dimension Kuwait is facing major challenges regarding the effectiveness of its educational system. There is growing evidence that the educational system needs to be overhauled in order to move more towards the creation of thinkers and initiative-takers. A lingering cause of this fall is the fact that since most of the teaching staff in Kuwait are expatriates, many Kuwaitis presume that they have a right to get the service using the least effort. Moreover, the expatriates don't generally have the same drive to educate as the main motivation for most is the financial return. Even at the University level, students are not engaging in creative thinking activities as much they get involved in accumulating countless amounts of data and theoretical concepts for which they are not taught the adequate means to transform into practical solutions to real-life business issues.

### ***Survey of Entrepreneurs and Potential Entrepreneurs in Kuwait***

#### *Survey Prelude*

The survey is designed to assess the experiences of entrepreneurs in Kuwait on one hand, and to find out what potential entrepreneurs are looking for to unlock their potential on the other. The survey consists of three parts. The first part is directed to existing entrepreneurs and its purpose is to determine the nature of their experiences and understand what drove them to become entrepreneurs in the first place, to a more in-depth understanding of their experiences especially the challenges they faced initially and those that they still face. The second part of the survey looks at the expectations of potential entrepreneurs. The aim is to determine the nature of these expectations, and based on that uncover the misconceptions and the deficiencies that must be addressed. The third part of the survey gathers some basic demographical data to help profile the characteristics of potential successful entrepreneurs in order to use in formulating screening criteria. The sample used for the survey is a group of university students pursuing a degree in business administration. The rationale for this choice is that this group possesses the educational qualifications to enable a preliminary screening mechanism. The data was gathered in an anonymous fashion in order to improve the validity of the responses.

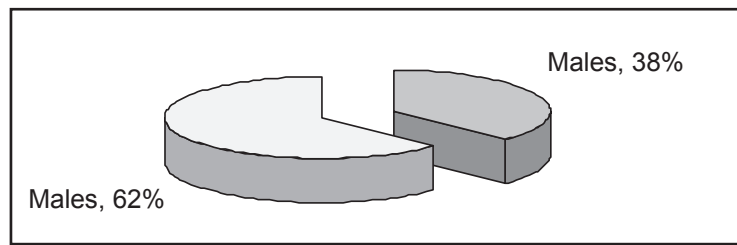
#### *Data Analysis*

The data analysis can be broken down into three main categories. The first looks at the demographical characteristics of the two groups investigated. The second focuses on building relevant constructs around the experiences of entrepreneurs to uncover possible causal relationships. The third investigates the potential entrepreneurs and sifts through the information to build constructs relating to the misconceptions and deficiencies in the mindset of these potential entrepreneurs to help in the screening and the development of adequate training programs.

### Demographical Analysis

The first striking finding is that out of the entire sample investigated, only 33% of the females owned their own business; whereas 50% of the males were practicing entrepreneurs. This is striking since the majority of the respondents (62%) were females, see figure 3.

Figure 3. Gender Breakdown of the Sample



On the risk-taking dimension, 67% of the males described themselves as risk-takers, versus only 50% of the females, see figures 4a and 4b. We'll discuss the implications of these findings in section 4.3. Overall, the entrepreneurs represented 17% of the sample.

### Entrepreneurs Experiences Analysis

Out of the entrepreneurs group, 67% were males and the rest females. On the risk-taking dimension, 67% of the entrepreneurs described themselves as risk-takers. The main motivation for starting a business was to improve the quality of life and to control one's destiny. The biggest personal challenge, surprisingly, was coping with the pressures of work and life. Consequently, most entrepreneurs felt that their biggest personal weakness is the lack of time management skills. The mechanisms for changing the work/life balance were spread among being happy with the current balance to reducing the number of work hours. The main reasons for the company's success were attributed mainly to the high levels of service and product quality. However, most entrepreneurs (50%) measured their companies' success by using the financial success as a criterion. The majority (67%) also indicated that they are "happy" with what they have achieved so far. In defining innovation, entrepreneurs emphasized the role of new thinking and new ideas, and the importance of keeping up to date with the market. More government grants and financial support was cited as the single most important additional support that these entrepreneurs would prefer. Finally, the entrepreneurs mostly cited the government support as an advantage to being based in Kuwait; whereas the size of the market was cited as the main disadvantage of operating in Kuwait. The implications of these findings will be discussed in 4.3.

Figure 4a. Male's attitude to risk-taking

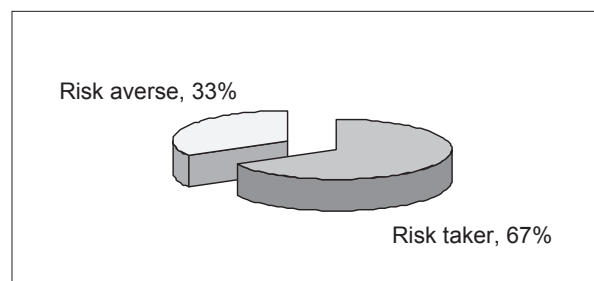
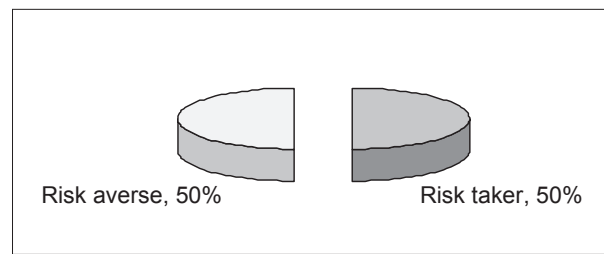


Figure 4b. Females' attitude to risk-taking



### **Potential Entrepreneurs Analysis**

The potential entrepreneurs group was significantly larger than the entrepreneurs group. This is quite important in validating the findings since this information will be critical in formulating screening criteria. Out of the potential entrepreneurs, 100% of the males indicated that they are interested in becoming entrepreneurs, versus only 91% of the females indicated the same. Although 85% of the respondents claimed that they feel that have what it takes to become successful entrepreneurs, 66% indicated that they are not sure of whether they possess the managerial skills necessary to conduct the business. 60% felt that there is adequate support to help in starting a business, while 27% disagreed. However, a striking majority (67%) did not feel that the university education did not prepare them for the challenges of being an entrepreneur. As for the main obstacles preventing these potential entrepreneurs from starting their businesses, only 38% named lack of the financial capital as an obstacle; whereas about 32% emphasized the lack of managerial skill. The next most important obstacle stated is the fear of failure. Yet, 25% stated pursuing education as their main reason for not starting a business. To further support the above construct, 37% stated training to develop managerial skills as the main incentive to consider starting a business, versus only 16% who stated financial help as the main motivator. As far as the managerial construct, the majority indicated that financial performance (35%) and customer retention (40%) would be the main factors to assess the success of the business. The medium-term profitability was stated by 60% of the respondents as the time frame that is most important when considering the business profitability. Finally, most respondents (44%) said that they would consider studying the main causes of poor performance before making a decision if the business faces financial trouble in its first year of operation.

### **Important Implications**

There are several important implications that would be crucial in formulating an adequate procedure for the screening of potential entrepreneurs. It is probably best to mention these implications in a bucket style as follows:

- The ratio of female entrepreneurs is significantly smaller relative to their weight in society. In effect, more than 50% of the Kuwait population id females. This can be explained by many social and cultural factors. The first of which is the fact that females did not get, and are still not getting, a fair share when it comes to education. The conservative nature of the Kuwaiti culture has emphasized sheltering the women and preparing them mainly for their roles as house-makers. This implies that any effective screening mechanism must consider ways of involving the females in a more proactive manner.
- Entrepreneurs generally have a risk-taking orientation. The female ratio of risk-takers

is significantly smaller than the males. Again this can be attributed to the conservative upbringing which does not foster taking initiatives. Furthermore, the educational system could be blamed for not instilling in students in general and females in particular, the innovative drive and focusing mainly on building basic skills. Sujatanond (2005) argue that education could be the key to success, not only in one's life but for a nation as a whole. The implication is that the educational qualifications of potential entrepreneurs play a significant role in predicting the success of a potential entrepreneur. This forms the ground for the argument that potential entrepreneurs must possess an undergraduate university degree at a minimum.

- It is evident from looking at the experiences of entrepreneurs that the main motivation for all is the improvement in the quality of life. The interpretation for this is that the quality of life driver is much more comprehensive and intimate than monetary gain. Consequently, any screening process must value highly the motivation of the potential entrepreneur.
- The entrepreneurs consistently stated lack of managerial skill, time management in particular, as their main personal weakness. Hence, any development program must emphasize building the fundamental managerial skill, especially time management.
- Despite the fact that most entrepreneurs indicated that the reason for success of their businesses was the high levels of quality of their products and services, the majority claimed that financial return is the primary key for measuring success. The same is observed in the potential entrepreneurs group. This implies that any screening or development program must clarify the balance between the financial return necessary to continue operating versus the growth of the company beyond its entrepreneurial shell.
- Although the majority of those aspiring to be entrepreneurs believed that they have what it takes to become successful entrepreneurs, a significant majority were not sure of whether they have the necessary managerial skill. This highlights the emotional factor in aspiring to be an entrepreneur, and consequently the need for the screening mechanism to balance the emotional desire needed to keep going even in dire situations, versus the objective assessment of basic managerial know-how and to some degree, common sense.
- Lack of capital, lack of managerial skill, and fear of failure were stated as the most important obstacles preventing potential entrepreneurs from starting their own businesses. This implies first of all that providing the finances will only solve a small portion of the problem. A comprehensive package of finances and adequate training in fundamental management skills and change management in particular, is required.
- Most potential entrepreneurs claimed that training to develop needed managerial skills is more important as a motivator than providing the financial support. This further supports the point mentioned in the above bullet point.
- Most potential entrepreneurs believed the medium-term profitability would be their main criterion for measuring the financial success of their businesses. This highlights the lack of

some basic managerial know-how in terms of relating the success criteria and the ensuing decisions to the life cycle of the business.

Based on these implications and several research findings, we proceed to the main objective of the paper: formulating a comprehensive methodology for the screening, training, and continuous development of entrepreneurs.

### ***Effective screening of potential entrepreneurs***

Based on the ensuing discussion, several constructs can be built for the effective screening of potential entrepreneurs. While the research, primary or secondary, will be indicated in some instances, I rely on the reader's recollection of the discussion to rationalize the proposed criteria.

### ***Characteristics of potential entrepreneurs***

Despite the fact that research has failed to develop any models with meaningful explanatory power for the creation of new firms based on individual characteristics, there is a convergence towards a set of necessary, albeit not sufficient, criteria. These criteria can be formulated within three main constructs.

- **Prior knowledge and experience:** This is manifested through educational and work experience. The issue that arises is what level would be considered sufficient. On the education dimension, there is little argument that university education is necessary. The type and breadth of knowledge received at university level prepares any individual, not only entrepreneurs, to think in a more organized and systematic manner. Is this mandatory for an entrepreneur who is supposed to think out of the box and be creative? It certainly is, since every organization goes beyond the concept to the detailed processes of operation and would necessitate a certain level of systematic thinking. Many researchers and observers attribute much of the famed "dot-com" bubble bust of the year 2000 to entrepreneurs not being able to cope with the "bureaucratization" of their firms. On the work experience dimension, it is critical in grasping some "soft" skills that could not be taught. Again the issue is what would be a sufficient number of years of experience? The answer is really dependent on the nature of the work experience as well, since managerial experience is quite different from clerical or technical experience. However, from the survey results, it is evident that managerial experience in any form is quite useful.
- **Social capital and network:** Research has shown that the success of firms depends significantly on the social capital and networking ability of the entrepreneur/founder. This is quite tricky to gauge in practice though. There is no objective way of measuring one's social capital or their networking ability. Nonetheless, access to information is quite important in distinguishing among entrepreneurs.
- **Risk behavior:** There is almost an agreement that entrepreneurs are risk-takers. Furthermore, they are able to deal with uncertainty and ambiguity. Measuring the attitude towards risk has generally been carried out through the use of utility functions. The drawback of this approach is that it uses money as the basis for the utility function, whereas many decision-making instances do not directly involve money.

### ***Screening methodology for potential entrepreneurs***

Based on the above constructs, the screening methodology for potential entrepreneurs would have the following necessary criteria.

- Potential entrepreneur must be a university graduate
- Potential entrepreneur must have a minimum of one year of managerial experience
- Potential entrepreneur must have prior knowledge of research methodology, and would have ideally participated in some knowledge creation activity. Communication skills, both oral and written, are also highly valued.
- Potential entrepreneur must be a risk-taker assessed both subjectively and objectively. The former is based on the potential entrepreneur's assessment of his/her attitude towards risk. The latter is based on an objective assessment that makes use of the utility function theory.

### ***Beyond identifying to seeking potential entrepreneurs***

The survey results indicate clearly that a significant portion of the society, namely the Females, are not taking an active part in entrepreneurship. Furthermore, a large number of the interviewed potential entrepreneurs have the desire to start their own businesses. In order to convert this potential to reality, it is imperative to actively seek potential entrepreneurs based on the criteria developed in the previous paragraph. The reactive approach only works in a society where taking the initiative is abundant, which is not the case in Kuwait. A more proactive approach would reach unlocked potential across the gender and socio-economic barriers. A "search and develop" scheme whereby groups that possess the preliminary qualifications, such as university students, are approached, screened, and coached to become successful entrepreneurs, should be developed.

### ***Building the necessary skills to effectively manage a startup***

Most of the individuals interviewed placed a significant emphasis on the need for managerial skill. Although the majority named time management, it is evident from the analysis of the findings that there isn't a clear understanding of the overall management process and the ensuing decision-making hierarchy. Many of the startups fail due to the entrepreneur's preoccupation with daily activities and losing sight of the business as a whole. The following represent a brief of what a training program should focus on.

#### ***Strategic capabilities***

In order to maintain the successful course of the business, an entrepreneur must have a basic understanding of strategy formulation. The long term direction for the organization must be formally thought out and planned even at the early stages of the venture. Moreover, a fundamental understanding of the changing nature of the business as it grows is necessary to avoid the so-called "chasm." Entrepreneurs should be able to visualize the fact that the majority of their customers possess quite different characteristics from their early ones (Johnson et al. 2005).

#### ***The Business-level Strategy***

At the business level, a dimension for competition is deliberately chosen. Most entrepreneurs surveyed attributed their businesses success to high levels of product and service quality. This is one dimension

to compete on. However, in many industries where the product/service is standardized, competition will generally revolve around the price. Developing efficient production and delivery systems across the organization becomes critical for the success and viability of the firm. In essence, positioning the entire business in the mind of the consumer, as a differentiator or a cost leader, plays a significant role in the profitability of a firm.

An associated factor with strategy formulation is the issue of strategy assessment. Entrepreneurs must be trained to assess the strategy, and thus the business, success on different criteria as time passes and the business grows. In its early stages, growth not profit should be the main criterion. Profitability should only become an issue after all the investment has been made and the critical mass of customers has been reached.

#### *The Functional-level Strategies*

The functional level strategies should logically follow from the business level strategy. Entrepreneurs should be trained to relate the two in a logical and systematic manner. Furthermore, developing a functional strategy revolves around building the competitive advantage blocks: superior quality, superior efficiency, superior innovation, and superior customer responsiveness. The building blocks to emphasize must be related to the business level strategy.

#### *Management of Change*

Research has shown that many entrepreneurs fail to go beyond their initial mindset in managing the business (Wasserman 2003). An effective management of change must start with an understanding of what is changing. There are several elements of the business that change over time. The first of which is the development of a bureaucratic structure to provide for the efficient operation. Entrepreneurs need to realize the need to delegate operational decisions, and focus on the longer term issues and decisions. The second element is the change in the scope of the business and the ensuing change in the characteristics of the customers. Entrepreneurs need to be trained to distinguish their late majority of customers from their pioneering customers. The late majority forms the critical mass of the customer base, and hence the products and services should be designed with this group in mind (Nayarayanan 2001). After understanding the change, managing the change revolves around developing a roadmap that is attainable and that is understood by those touched most by the change.

#### *Time Management*

One of the biggest challenges reported by the entrepreneurs surveyed is time management. The issue of balancing the demands of work and the challenges of life remains a significant hurdle to be overcome. A training program must include a significant component on how to organize for a near-optimal balance.

#### *Operational capabilities*

In order to be successful, entrepreneurs must be able to effectively implement their formulated strategies. Fundamentally, implementation deals with two main decisions: scheduling and resources allocation. Operational decisions are much more concrete, consequently the decisions at this level should make use of many objective models. Many of these models are fairly easy to follow and do not require a great deal of mathematical aptitude.



## Scheduling

Scheduling is the identification of the specific tasks and activities that make up a plan, and the allocation of these activities to time slots. Given the sequential nature of the activities, and the complex inter-relationships among different tasks, it would be almost impossible to gauge the time requirements of a given plan without the use of some objective method. One such method that is of great value in scheduling is the critical path method (CPM) approach. The CPM helps entrepreneurs determine the overall duration of a given project and the identification of tasks that are critical for the timely completion of the project. It also has some interesting implications to the resources allocation problem (Meredith and Mantel 2000).

## Resources Allocation

For a schedule to be carried out, resources must be in place when they are needed at the quantities needed. The problem here is not only the scheduling of the resources around that of the tasks; it is also a matter of finding out ways to minimize the resources usage without affecting the overall duration or performance. Issues relating to “crashing” and “un-crashing” tasks durations and the associated resources trade-offs would be of great value to entrepreneurs.

## Action plan

In this section, an action plan is provided. It is intended to go a step towards translating the results of this research to practice. The approach is illustrated in the following flowchart. It is then explained in more detail.

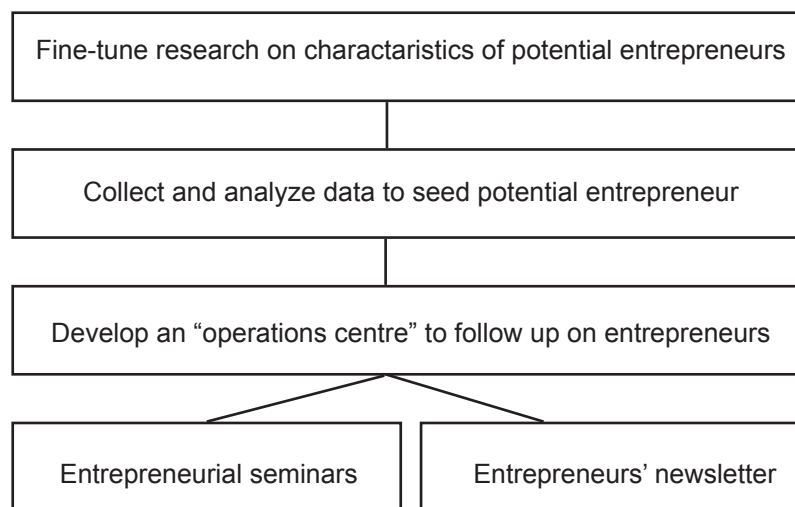


Figure 5

### *Fine-tuning the research on characteristics of potential entrepreneurs*

The first step deals with fine-tuning the characteristics of potential entrepreneurs from a behavioral point of view. Some key demographical characteristics were provided; however, an understanding of behavior will be of great importance in attempting to gauge the aptitude of a potential entrepreneur.

### *Collecting and analyzing data to seek entrepreneurs*

This second step deals with collecting data of groups that possess the main characteristics highlighted in the previous section. A starting point could be the university students and graduates. The analysis would then focus on the in-depth screening of the investigated group. Those identified as having the potential would

then be guided through a training program to equip them with the necessary managerial and inter-personal skills.

#### *Developing an "operations center" to follow entrepreneurs*

Once a group of entrepreneurs is selected, financed, and trained, an "operations center" should be instituted to follow the progress of entrepreneurs and their businesses. The monitoring of the performance should be made in a periodic and systematic manner. A set of criteria for the progress of the entrepreneur and the business should be formulated. These criteria will focus on assessing the growth in knowledge and skill of the entrepreneur on one hand, and some key progress indicators for the firm such as growth, employee turnover, and customer retention.

#### *Making use of successful entrepreneurs experiences:*

Knowledge management is a word that has been used quite extensively in the recent years. While much of the talk around it is built around the e-business domain, the importance and applications of knowledge management are far reaching. The knowledge and experiences gained by the entrepreneurs as they find their way in the business world are extremely valuable, and should be taken advantage of fully. This knowledge will uncover any missing links in the screening and training programs, as well as providing potential and new entrepreneurs with perspectives that could never be taught or delivered in a training program. Two such tools to make use of the entrepreneurs' experiences are entrepreneurial seminars and an entrepreneur's newsletter.

#### *Entrepreneurial seminars*

Seminars involving established entrepreneurs should be held regularly, every three months for instance. Different themes could be selected for each seminar, ranging from simple experiences discussions to more specific issues that are of use for the effective management of businesses. Moreover, entrepreneurs benefiting from financing should be made accountable by sharing in the costs of organizing the seminar. This will also strengthen within them the social responsibility dimension.

#### *Entrepreneurial newsletters*

A monthly entrepreneur's newsletter would provide a more frequent platform for the sharing of the experiences and knowledge. It can also serve as a means to propagate important policy issues and draw the entrepreneurs' attention to new and exciting areas of business and decision making.

### **Conclusion**

The issue of finding, developing, and continuously supporting entrepreneurs is critical for the effective creation of a private sector. The private sector is in turn imperative for any nation aspiring to solve its employment issues. Kuwait is seeing a boom in the number of national job seekers, and this wave will continue and grow in strength in the coming decade. In this paper, we have presented a comprehensive approach for seeking and building entrepreneurs. The research used both primary and secondary data sources. The primary data consists of a survey that was administered to practicing entrepreneurs and to potential entrepreneurs. The survey results uncovered some important findings that were discussed and rationalized. Secondary data came from a survey of existing research on the topic of entrepreneurship. The findings were instrumental in the design of the seeking and building methodology.



There are many ways in which the research can be extended. One such extension was already mentioned and deals with fine-tuning the findings on the behavioral characteristics of entrepreneurs. Another important area is researching the criteria on which to assess young entrepreneurs and young businesses based on which a mechanism for follow-up is customized. Yet another important area to research is the evaluation of the Female entrepreneurs' experiences and comparing them with those of Males. The findings of such effort could help in the thrust towards more proactively involving the Female component of the society in the economic cycle.



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## China and the Pollution Haven Hypothesis: A Spatial Analysis of Pollution and Investment

Stuart C. Strother, Elizabeth Frank, Roger B. Conover

Institutional Affiliation: Azusa Pacific University; Azusa, Ca, USA

Corresponding Author: Stuart C. Strother

School of Business and Management, Azusa Pacific University

Azusa, Ca, USA

sstrother@apu.edu

**Abstract:** Since the beginning of the reform period in 1978, China has struggled to deal with the dual problems of the environmental impact of its growth and its Maoist environmental legacy. Is the rise in pollution in China associated with the increase of foreign investment pouring in as a result of trade liberalization, or is domestic investment more connected to pollution? In this study we analyze relationships between pollution and investment (both foreign and domestic) using provincial level data in China. We test the “pollution haven hypothesis,” which suggests foreign investment positively correlates with the amount of pollution per square kilometer. Our findings indicate the level of foreign investment in a province is almost a non-factor in relation to its pollution levels, supporting those who argue against “pollution haven” or “race-to-the-bottom” theories.

**Keywords:** pollution haven hypothesis, race to the bottom theory, EKC, foreign direct investment, China

### **Introduction**

Over the last 40 years, increasing environmental regulation and enforcement in developed countries has been used to internalize the environmental costs of industrial production. These changes have increased production costs by including these previously unpaid costs into market transactions. A seemingly “rational” business response for firms with high environmental intensity is to seek out production environments in other countries with relatively lower costs. This “pollution haven hypothesis” explains that firms establish competitive cost advantages by exploiting lower environmental compliance costs. The lower costs are due presumably to lower levels of regulation and enforcement, and are likely to be found in developing countries which are competing for foreign direct investment. Low (1992) adds that lower environmental charges may result both from competition for FDI and from a country having a competitive advantage in the provision of environmental services [17]. Thus we expect a significant correlation between increased foreign direct investment and increased environmental degradation in such countries.

No country has ever matched China’s recent meteoric economic growth. Since 1978, China’s GDP per

capita increased at 8.6% annually. This growth is largely fueled by an export-focused robust manufacturing sector that is strengthened with increasing amounts of foreign investment. Sadly, this growth has not been without negative environmental consequences. Over the reform period (since 1978) China has struggled to deal with the dual problems of the environmental impact of its growth and its Maoist environmental legacy. Is the rise in pollution in China associated with the increase of foreign investment pouring in as a result of trade liberalization, or is domestic investment more connected to pollution?

In this study we OLS regression to analyze relationships between investment (both foreign and domestic) and pollution, using provincial level data in China. The “pollution haven hypothesis” is tested, which suggests a higher number of foreign investment correlates closely with the amount of air, water and solid pollution per square kilometer, holding domestic investment constant.

### ***Industrial Development In China***

Beginning in December 1978, the reform movement has gradually set China on a course of increasing openness to foreign businesses and foreign investment. No other country has experienced the level of economic growth that China is currently enjoying. After growing about 8.6% annually from the beginning of the reform period, China now has the third largest economy after the E.U. and the U.S., and foreign trade accounts for a third of China’s GDP.

“Poverty is not socialism; to be rich is glorious,” declared Deng Xiaoping as he broke from Mao’s socialist ideals and implemented capitalistic reforms. He explained, “It doesn’t matter if a cat is black or white, so long as it catches mice.” Deng’s policies changed the system from a centrally-planned economy to a mixed economy, which helped China become a major economic powerhouse in the East. From 1978-1984, Special Economic Zones (SEZ) were established in Shanghai, Shenzhen, Zhuhai and Xiamen, attracting foreign companies with their tax breaks, cheap labor, and other incentives. Most of the foreign firms taking advantage of this new “Open Door” policy entered into joint ventures with Chinese companies, many of them state-owned. In the 1990s, sustainable development measures were put in place to ensure that business interests were “harmonious” with the environment. Efforts were also made to develop the western regions, including Tibet and especially the oil-rich areas of Xinjiang.

Business leaders from Japan, the U.S., Taiwan, South Korea and elsewhere invested in production facilities and either sell their products to Chinese consumers (and avoid paying Chinese import tariffs), or they export the products abroad, especially to the U.S., to take advantage of China’s cheap labor costs. Foreign manufacturing firms can be found in every major Chinese city, but are concentrated in the Special Economic Zones. Shanghai is the preferred location for foreign firms to locate their regional headquarters, with almost a thousand such firms including Bosch, McDonald’s and Ford.

China’s increased integration into the world economy has not been without controversy. In addition to environmental degradation, critics note additional economic challenges in China including intellectual property violations, sweatshop work conditions, income inequality, currency manipulation, a large underground economy, and overpopulation. The impact on local, regional and trans-boundary environmental conditions has been substantial. Most of China’s pollution concerns relate to acid rain, dirty rivers, and desertification mostly caused by heavy industrial pollution. Increasing amounts of attention has been paid by policymakers to protecting the environment in China, such as the new “Green GDP” provincial economic

performance criteria described by Li and Lang (2010), but at present, expanding output and employment appears to some a higher priority than preserving natural resources for future generations [15].

Damage to the environment is especially worrisome in China because only a small part of its land can be used productively. Geographically, China is the fourth largest country in the world, but only about 15% of the land is arable; the rest is dominated by the Himalayan Mountains, the Tibetan plateau, the Taklimakan desert, and the Gobi desert. It is notable that since the late 1990's, a sustainable growth movement appears to be gaining influence.

### ***Current State Of The Research***

The environmental Kuznets's curve, or EKC [1, 2, 6, 10], is widely used to model national pollution levels. The EKC is a general pattern with variations among different specific contexts. Although some attempt to assert this relationship attains because environmental services are "amenities" with high income elasticities [2], this mistakes the common property nature of environmental services (which are inputs to both consumption and production) as public goods. Conover (2005) hypothesizes the relationship between income and environmental degradation rests on four elements: (1) changes in the environment intensity of particular sectors and industries in the economy, (2) structural changes within the economy that change the aggregate environment intensity of the economy, (3) increasing returns to abatement and remediation technology, and (4) the development of environmental policy that addresses both the state and rate of environmental degradation [4]. Most simply, this model theorizes an inverted-U relationship between pollution levels and income in which pollution increases as a nation moves from being an agricultural economy with moderate environment intensity into a industrialized economy with much heavier environment intensity. Gradually the curve bends back down as incomes increase further, and the nation moves into being an economy built around services and technology.

The "Pollution Haven" theory and the "Race to the Bottom" hypothesis are commonly cited explanations of polluting foreign investment exploiting lax environmental regulations [21, 24]. Economic activity requires the use of labor, capital, and land resources. The environment, part of the land resource, should be thought of as a production input. Firms gain competitive cost advantages when environmental inputs are cheaper. A firm may productively use environmental resources such as mining metals for automobile production. Contrarily, firms may also use the environment destructively such as dumping toxic waste into a river. Tighter environmental regulations internalize the cost of such negative externalities by imposing steep fines on the offending firm, thus causing them to internalize the true cost of their use of the environment.

"Pollution Havens" are areas with relatively low-cost environmental regulations that heavy-polluting firms find attractive for industrial location. Some have argued that trade liberalization encourages firms to move to pollution havens, thus increasing environmental degradation [20]. Others, however, disagree claiming trade liberalization is a factor in rising incomes which leads to emission controls in the long run [7, 18, 24]. Additionally, long run benefits include the transfer of clean technology to emerging economies that might not have occurred in a limited trade environment [7, 18, 24].

The "Race to the Bottom" theory suggests that high-income countries may ease pollution standards in an effort to attract and retain mobile firms that might be tempted to relocate to emerging economies that are both pollution havens and sources of cheap labor [21]. Race to the bottom rhetoric powerfully influences

environmental policy debates, but empirical evidence supporting the theory is scant. Wheeler's (2001) study of conditions in Mexico, India and China, found that air quality was improving, even as exports in heavy-polluting industries increased [21].

In general, existing empirical research does not support pollution haven and race to the bottom theories. There are a number of explanations for this. Private firms make decisions according to the profit motive, and for many firms, the costs of environmental compliance are not critical enough to impact profits as significantly as other factors such as proximity to inputs or consumers [6] therefore pollution havens are less attractive. Firms have also been known to rationally self-regulate their pollution emissions when marginal abatement costs equal marginal pollution penalties, especially as cleaner production technologies become more affordable [11]. Multinational corporations also tend to follow OECD environmental guidelines in both their home country and international operations.

Firms also face environmental scrutiny from consumers, investors, NGO's, and other stakeholders. When formal environmental protections do not exist, local communities, even low-income communities, find ways to punish polluters [21]. They also can create positive incentives to reduce pollution from industrial and other sources [14]. It is possible the downward pollution trend predicted by the EKC occurs at a later stage of income growth aligning with the increased regulations that parallel increasing incomes. Much of the research discredits the politically useful "Pollution Haven" and "Race to the Bottom" theories. The bottom (minimum environmental standards) actually appears to be rising as incomes rise. In the short term, however, trade liberalization and increased industrial investment may result in increasing pollution before regulators and local community pressures can respond effectively.

In the existing literature on trade liberalization and pollution, there is scant research analyzing the direct relationships between domestic and foreign investment in emerging economies. This paper contributes to the literature by analyzing the relationships between air, water, and solid pollution and domestic and foreign investment. Knowing that FDI is not evenly spread out among the different regions of a country, we use provincial-level data to analyze these relationships. The next section of this paper describes the data, methodology, and results of this study.

### **Data**

Provincial level data was collected from the 2007 Chinese Statistical Yearbook. Dependent variables are measures of air, water, and solid pollution. Independent variables are domestic investment, FDI, and investment from Greater China (Hong Kong, Macau and Taiwan). Thirty provinces are included in the study. Tibet is excluded due to near-zero FDI, and Hong Kong, Macau and Taiwan are excluded because they operate under a different regulatory situation. Table 1 shows the descriptive statistics and bivariate correlations.

Air pollution is the sum of industrial CO<sub>2</sub>, consumption CO<sub>2</sub>, industrial soot, consumption soot, industrial dust particulate matter, and consumption dust particulate matter. Water pollution is calculated as total water discharged minus total discharged water meeting standards. Solid pollution is total solid waste minus solid waste reused. To control for differing sizes of the provinces we divide pollution amount by the square kilometers of each province resulting in final variables with "tons of pollution per square kilometer" as the unit of analysis.



Bivariate correlations in Table 1 indicate statistically significant strong positive correlations between all three pollution variables. Thus we conclude that provinces with high levels of one type of pollution will likely have high levels of all three types of pollution. Henan province for example, is one of the most polluted provinces with its industrial clusters in petro-chemical, metallurgy, electronics, and others. In 2006, Henan had 179 tons of air pollution per square kilometer, 5,469 tons in water pollution, and 1,315 in solid pollution. By contrast, Hainan Island to the south with its coffee plantations and tourist beaches is quite a bit cleaner registering only 1 ton of air pollution per square kilometer in 2006, 116 in water pollution, and 10 in solid waste.

Table 1. Descriptive Statistics And Bivariate Correlations

	mean	st. dev.	N	1	2	3	4	5	6
1. Air <sup>a</sup>	18.0	34.4	30	1					
2. Water <sup>a</sup>	659.3	1,098.1	30	.84**	1				
3. Solid <sup>a</sup>	147.2	254.8	30	.81**	.72**	1			
4. Domestic <sup>b</sup>	3,232.0	2306.6	30	.26	.37*	.19	1		
5. FDI <sup>b</sup>	203.8	271.6	30	.15	.25	-.06	0.79**	1	
6. GC FDI <sup>c</sup>	158.1	238.9	30	.04	.31	-.07	.62**	.79**	1

a. tons per square kilometer

b. 100 million CNY

c. Investment from Greater China (Hong Kong, Macau, and Taiwan) in 100 million CNY

\*\*  $p < .01$

\*  $p < .05$

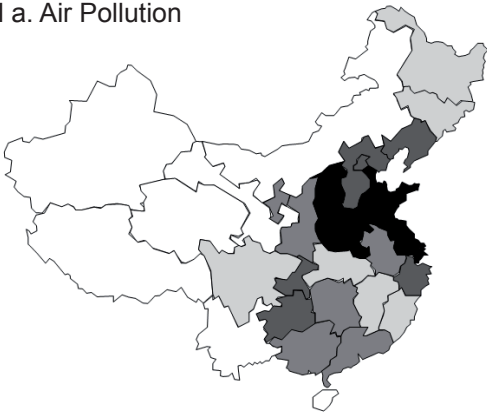
Figure 1 shows the geographic distribution of the pollution variables used in this study. For each variable the provinces are shaded from light (quintile with lowest values) to dark (quintile with the highest values). Panel a shows the worst air pollution is concentrated in Tianjin, Shanxi, Henan, Shandong, Jiangsu, and Shanghai. More than 70% of the firms in Tianjin and Shanxi are considered heavy industries including mining and smelting. This smokestack-filled region is also heavily polluted due to coal-fired electricity generation. These provinces are also north of the Yangtze River, where the central government does not limit heating in winter months as it does south of the river. Shanghai's air quality is poor due to millions of automobiles and the humid sea air retaining industrial pollution from factories upwind.

Panel b in Figure 1 reveals the dirtiest water in the Pearl River delta (Guangdong province), the Yangtze River delta (Shanghai), the Qiantang River delta (Zhejiang) the middle section of the Yellow River (Shanxi and Henan), and in Ningxia. These rivers do not provide safe drinking water, and are now at the point where some claim the water is not even fit for agricultural or industrial use.

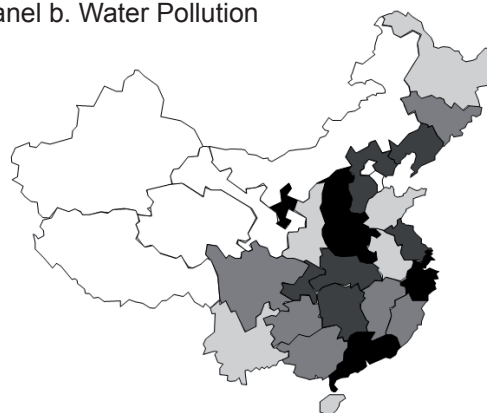
Panel c shows solid pollution is again heaviest near the central eastern part of the country and along the eastern coast. These same areas contain most of China's population and much of its industrial pollution, so the solid pollution is likely a result of urban household waste and commercial waste.

Figure 1. Pollution Quintiles

Panel a. Air Pollution



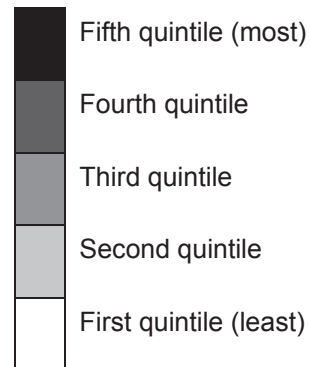
Panel b. Water Pollution



Panel c. Solid Pollution



Legend



Measures of investment serve as independent variables in this study. Investment from domestic sources is the largest category (mean = 3,232.0 of 100 million yuan in 2006). The FDI variable (mean = 203.8) allows us to directly analyze the pollution haven hypothesis. In addition to foreign investment, we include investment from Greater China (Hong Kong, Macau and Taiwan). Although these are “Chinese” firms, we think of their investments more like FDI because they have freedom to choose where to invest. The size of the investment (mean = 158.1) makes it especially relevant to include this Greater China investment in our analysis. Bivariate correlations in Table 1 show positive correlations between all three investment variables. Thus, we conclude that Chinese firms and foreign firms have similar geographic investment preferences.

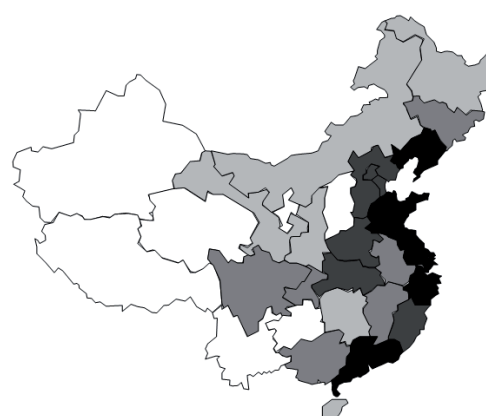
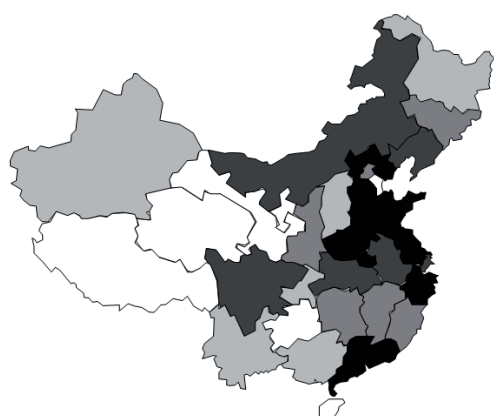
Figure 2 shows the geographic distribution of investment in China. All three panels reveal that eastern China attracts the most investment. Panel b confirms that, even decades after the 1970s establishment of the Special Economic Zones, these same areas are still attracting the most FDI. Panel c reveals that Greater China investment still favors coastal provinces, where much of China’s manufacturing is concentrated. In terms of industrial output, three of the top provinces are in Jiangsu (11,201 of 100 million yuan in 2006), Zhejiang (10,592), Shandong (10,437) and Guangdong (6,040). A historical connection also explains this

greater China investment in China's coastal regions. Faced with certain persecution by the Communists in the 1950s, many wealthy business owners fled the mainland and resettled in Taiwan and Hong Kong. After trade liberalization of the 1970s, they began to reinvest in the mainland, and focused on coastal regions for economic advantages, but also because, for many, these were their ancestral lands.

Figure 2. Investment Quintiles

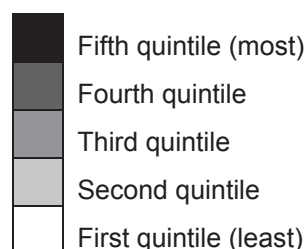
Panel a. Domestic Investment

Panel b. Foreign Direct Investment



Panel c. FDI from HK, Macao & Taiwan

Legend



### Methodology

The objective of this study is to compare the relationship between investment and pollution in mainland China. Three statistical models are proposed, each using one of the three dependent variables of air, water, and solid pollution. Ordinary least squares regression is employed to identify the relationships between the three pollution variables and three independent variables (domestic investment, FDI, and Greater China investment). The following equation represents these statistical models:

$$P = a + b_1DI + b_2FDI + b_3GCFDI + e$$

where  $a$  is the intercept,  $P$  = pollution,  $DI$  = domestic investment,  $FDI$  = foreign direct investment,  $GCFDI$  = Greater China FDI, and  $e$  is the error term. Results are presented below.

## Results

The air pollution regression shown in Table 2 reveals that 9.4% of air pollution levels in Chinese provinces are explained by investment levels ( $R^2 = .094$ ). The coefficient of multiple determination ( $R^2$ ) indicates the amount of the variance in the dependent variable that is explained, or accounted for, by the independent variables [16]. Domestic investment is positively correlated with air pollution, and the regression coefficient ( $b = .0056$ ) reveals an additional 56 tons of air pollution are experienced with each additional 100 million yuan in domestic investment. Similarly, FDI ( $b = .0026$ ) accounts for an additional 26 tons of air pollution per 100 million yuan of FDI. Investment from Greater China is negatively correlated ( $b = -.0302$ ) with air pollution.

Table 2. Regression Output

	Air Pollution <sup>a</sup>	Water Pollution <sup>a</sup>	Solid Pollution <sup>a</sup>
Domestic Investment <sup>a</sup>	.0056	.2271	.0730*
FDI <sup>b</sup>	.0026	-1.5411	-.5188
GC FDI <sup>b</sup>	-.0302	1.4531	-.0487
$R^2$	.094	.182	.167
F	.89	1.93	1.74
N	30	30	30

a. 10,000 tons

b. 100 million yuan

\*  $p < .05$

The results of the air pollution regression lend modest support for the pollution haven hypothesis. However, the rate of pollution associated with FDI is only half as much as domestic investment. In other words, every yuan invested by domestic companies is associated with twice as much pollution as a yuan invested by foreign firms.

In the water pollution regression we find 18.2% of the variation in water pollution levels is explained, or accounted for, by investment levels ( $R^2 = .182$ ). The second largest relationship ( $b = .2271$ ) in this study is between domestic investment and water pollution. Each 100 million yuan invested by domestic firms is associated with 2,271 tons of additional water pollution. FDI, on the other hand, is negatively correlated ( $b = -1.5411$ ) with water pollution which contradicts the pollution haven hypothesis. The largest relationship in this study is between Greater China investment and water pollution ( $b = -1.4531$ ). Each 100 million yuan spent by companies based in Honk Kong, Macau and Taiwan is associated with 14,531 additional tons of water pollution. This finding may result from these firms using dirty technologies in their production processes, or more likely, a result of these firms doing business in river delta regions that are already rife with polluted water.

Using solid pollution in the regression, we find that investment explains 16.7% of the variance in pollution levels ( $R^2 = .167$ ). Domestic investment is positively correlated ( $b = .0730$ ) with solid pollution and statistically significant ( $p < .05$ ). FDI and Greater China FDI are both negatively correlated with solid pollution. The more domestic investment a province receives, the more solid waste is produced. Conversely, provinces with more

foreign investment experience less solid pollution. Once again, the pollution haven hypothesis is contradicted by the data.

In the multivariate regressions, only one of the nine correlations is statistically significant. Significance is frequently used by researchers wanting to make inferences from small samples to larger populations of interest. The present study, however, is a descriptive study using population data. The correlations accurately describe the pollution/investment relationships in the study year.

### **Conclusion**

In recent decades, trade liberalization has allowed mobile firms to locate production facilities outside of their national borders. Following the profit motive, these firms look for places with low-cost inputs, especially labor and natural resources which will allow them to cut production costs. The pollution haven hypothesis suggests firms choose locations with loose environmental standards, so they may avoid the costs associated with cleaner production.

On the other hand, Instead of international firms moving their heavy polluting production facilities abroad, it is more likely these foreign firms are building cleaner, greener production facilities in the Special Economic Zones of China. Much FDI in China is in the form of “greenfield” developments where firms have flexibility to implement the latest production technologies which may be cleaner than their legacy systems found in the factories in their home countries. Thus foreign investment may actually be both cheaper and cleaner.

In the current study we analyze the current relationship between investment and pollution in China. The regression technique allows us to precisely quantify these relationships. The low model fit statistics ( $R^2 = .094, .182, \text{ and } .167$ ) indicate that 80% to 90% of the variation in pollution levels in Chinese provinces are explained by non-investment factors. Nonetheless the correlations presented above describe the direction and magnitude of the relationship between investment and pollution in China.

Our results show a connection between foreign investment and air pollution in China, but the connection is much weaker than the connection between domestic investment and air pollution leading us to conclude that foreign firms are not allowed to pollute as much as local firms. This may be the result of formal regulation by government, informal pressure by local communities, or simply a voluntary decision of the foreign firms.

Results also show negative relationships between FDI and water and solid pollution. The more FDI in a province; the less water and solid pollution. These findings do not support the pollution haven hypothesis. Investment from Greater China however was correlated with increased water pollution.

In general, this analysis of recent data in the Chinese context does not lend support to the pollution haven hypothesis. Empirical research analyzing pollution and investment in China is scant. This study adds to the body of literature in two important ways. First, the use of provincial level data allows us to detect important regional differences in investment and environmental degradation. Second, this study uses three measures of investment: domestic, FDI and investment from Greater China to test the pollution haven hypothesis. While a strength of this study is the use of recent data, a similar study using data from the 1970's reform era may result in different findings. Additionally, a time series analysis of these variables would also further clarify the relationship between pollution and investment in China.

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## **Comparing the Entrepreneurial Attitudes of US and Iranian Students**

**ArezouFakharzadeh**

M.Sc in entrepreneurship management,  
University of Tehran, Iran  
email: afakharzadeh@yahoo.com

**Anne Johnson**

Doctor of Business Management,  
University of California, U.S.A

### ***Abstract:***

The purpose of this research is examining and comparing the entrepreneurial attitudes and intentions of U.S and Iranian students. Hypotheses based upon differences in national culture and entrepreneurial infrastructure were posited and examined. Survey was conducted among some university students of two nations and findings indicated that U.S students possessed significantly stronger attitudes toward innovation in business and perceived self control; however Iranian students had significantly stronger perceived self esteem related to business and there is no significant differences between their need for achievement attitude. It is also indicated that Iranian student had significantly higher intention of future entrepreneurial activities.

**Keywords:** Entrepreneurial attitude, Culture, Education

### ***Introduction***

Entrepreneurship is 'at the heart of national advantage' (Porter, 1990, p. 125) and entrepreneurial people are a valuable asset for the government, most importantly because they create new jobs, take risks and are willing to take responsibility (Torokoff, 2006). Therefore, the encouragement of entrepreneurial activities is recommended as a way to stimulate economic growth (Harper 1991). Attitudes vary widely concerning the desirability of entrepreneurship as a career and knowledge of these attitudes can help policy makers encourage entrepreneurship (GEM report,2009).

The Global Entrepreneurship Monitor research group generally classifies countries in terms of economic development as factor-driven, efficiency-driven and innovation-driven. According to Global Entrepreneurship Monitor's 2009 Global Report, U.S. has an innovation-driven and Iran has efficiency-driven economies. Efficiency-driven economies exhibit scale-intensity as a major driver of development and Innovation-driven

stage of development economies are characterized by their production of new and unique goods and services that are created via sophisticated and often pioneering methods. The relationship between training in starting a business and entrepreneurial attitudes, aspirations, and activity is generally positive and some differences are apparent between country groups (GEM report, 2008). Although research examining actual entrepreneurship in various nations is conducted by organizations such as the Global Entrepreneurship Monitor (GEM), very few studies examining entrepreneurial attitudes as the result of differences in culture have occurred (Lindsay, 2005).

From a theoretical perspective, examining the attitudes of individuals from differing nations and cultures provides potential insight into propensities toward new venture creation. From a more practical position, knowledge related to students' attitudes and future entrepreneurial intentions can provide a foundation for future entrepreneurial education programs and predictions for future entrepreneurial activities (Minniti, Allen & Langowitz, 2006). Some research indicates that differences do exist across students from different nations (Harris, Gibson, 2008).

U.S. and Iran play an important economic role within their respective regions. A greater understanding of the entrepreneurial attitudes and perceptions of young adults from these countries can assist with the development of a more accurate entrepreneurial profile.

Morrison (2000) suggests that the formal education system can play a significant role in the development of characteristics associated with entrepreneurial behavior. Many college students are future business leaders within their respective countries and educational institutions must help prepare them for such a role.

According to the different phases of economic development and different culture of Iran and USA, we examined the entrepreneurial attitude of U.S. and Iranian college students in this research.

## **Literature Review**

### *Iranian entrepreneurship education*

According to the GEM report 2009, Iran transferred from factor-driven to efficiency-driven country. This indicates that it is increasingly in the way of economic growth. Much of the economic growth in Iran over the past few years can be attributed to the "freeing of the entrepreneurial spirit" (Ahmadpour, 2008). The Growth in entrepreneurship programs has been fostered by an increase in the popularity of entrepreneurship, an increase in the status accorded entrepreneurs as well as an increase in the recognition by the business process of the importance of entrepreneurship in the larger economy. In ministry of Science and Technology "Karad"- Entrepreneurship in Universities- has begun from 2000 that means all universities should have Entrepreneurship center and some Entrepreneurship schools have been established by 2007. Although Entrepreneurship education is a relatively new concept in Iranian universities, many believe that it will play a critical role in the future of Iranian students. These programs have been well received by Iranian students reporting a high level of interest in entrepreneurial activities (Zalli, 2005).

The perceived benefits of working with, or starting, an entrepreneurial venture include high financial potential, greater autonomy and responsibilities, more personalized managerial relationships, and the opportunity to be creative and innovative (Moghimi, 2006; Zalli, 2005). However, Iranian students are still a bit wary of obstacles such as limited access to resources, restricted property rights, and political uncertainty, and often feel they lack adequate business experience and technical knowledge necessary for business ownership (Ahmadpour, 2003, Moghimi, 2006).

Despite these concerns, Iranian students seem well aware of the impact entrepreneurship has had on the national economy in their own lifetime. Many Iranian entrepreneurs have become role models for the younger generation and demonstrated that business ownership is becoming a viable career choice. Though entrepreneurship education is still in the formative stage at colleges and universities, it has the potential to serve as critical tool for socio-economic development throughout all regions of Iran (Moghim,2006).

#### *U.S. entrepreneurship education*

Entrepreneurship education is one of the fastest growing areas in colleges and universities in the United States. Given the high level of decentralization in the United States, a unified national system of entrepreneurial education does not exist. As a result, its theory and practice vary greatly among researchers and institutions, although there is a general tendency towards specificity and pragmatism.

Emphasis on firm creation has been a feature of entrepreneurial education from its incipient stages in the U.S. In 1947, Myles Mace established an optional course –The Management of New Enterprises– in the Master of Business Administration program at Harvard Business School. Its goal was to facilitate the reintegration into society of students that had served as soldiers in World War II. According to Katz (2003), 188 of the 600 students enrolled in the master's program took the course. Since then, the number of higher education institutions that offer courses in entrepreneurship has steadily increased. There were already 400 such institutions by 1995 (Vesper & Gartner, 1997). A study carried out by the Small Business Administration reports an even higher growth rate – stating that the number of these institutions rose from 263 in 1979 to 1400 in 1998 (Solomon, Weaver & Fernald, 1994). Despite the discrepancies between these two studies, they both clearly show the importance of this growth.

The increase in the number of education institutions is not the only way entrepreneurial education has grown. There has been a parallel trend towards deepening the entrepreneurial knowledge base. Masters and other postgraduate programs that began by offering optional courses have expanded this offering in two ways. On the one hand, the postgraduate programs now tend to offer groups of courses (concentrations) in the area of entrepreneurship. On the other hand undergraduate programs have also introduced entrepreneurship courses, first as electives, then as minors and now as majors – students can now graduate with a degree in entrepreneurship. Katz (2003) reports that in 1968, Babson College introduced the first minor in entrepreneurship at the undergraduate level. In 1971, the University of Southern California introduced the first interdisciplinary entrepreneurship course at the master's level. The creation of entrepreneurial education programs developed more slowly throughout the 1970s. At the end of 1979, only eight institutions – at both the undergraduate and graduate levels – offered concentrations in this field (Vesper, 1982).

Students' demand is not the only factor behind the development of entrepreneurial education. Vesper (1982) reports that the Federal Administration contributed greatly to this movement through some of its projects. The activity of the Small Business Administration (SBA) is of particular note. In 1972, the SBA launched the Small Business Institute (SBI), which provided small businesses with consulting services by university students (SBA, 2002). For each successful consultation, SBI paid the university without any attached conditions about what the money was to be used for, providing a very attractive incentive for universities to participate. The program spread very quickly to a large number of business schools. In its first year, SBI started in twenty universities, by 1995 it had reached 450. Universities usually introduced courses

consisting on this consulting by students. However, many departments also introduced pre-requisite courses on small business management or new venture creation, in order for the students to understand the realities of the small firm. Therefore SBI was most likely the driving force behind entrepreneurial education in the 1970s, although this may have not been its original objective (Kent, 1990).

The consolidation of entrepreneurial education as a discipline is demonstrated by two occurrences. The first is the creation of centers and associations dedicated to the study and the dissemination of the topic. Doctorate programs are taking longer to develop entrepreneurship programs. Katz (2003) counts only six entrepreneurship doctorate programs in the world – one Canadian, two European and three American. However, Katz also identifies twenty-two other American universities that offer a doctorate program which, not being specifically in entrepreneurship, offer the possibility to choose this topic. In sum, the development of entrepreneurial education has been impressive in the United States. Vesper & McMullan (1988) confirm that towards the end of the 1980s, between 10% and 25% of all MBAs had chosen at least one course in entrepreneurship. Fifty years ago entrepreneurial education as a discipline was practically nonexistent. Twenty years ago it still lacked recognition and consolidation at the academic and scientific levels. Today however, no-one has any doubts about its solid present situation and future prospects.

#### *Culture and Entrepreneurship*

Various studies have highlighted the impact of national culture on entrepreneurship and Innovation (Hofstede, 1980; Slevin & Covin, 1990; Hofstede, 1991; Vernon-Wortzel & Wortzel, 1997; Morrison, 2000; Lindsay, 2005; Zhao, 2005). This impact can stem from socialization processes that affect work behaviors as well as social policies that are shaped by basic beliefs and values. These social policies are then often used to indirectly, or perhaps directly, impact economic development and growth within a country or a specific region.

Research by Hofstede (1991) on the various elements of national culture focuses on five specific dimensions. This framework consists of individualism, power distance, uncertainty avoidance, masculinity, and long-term orientation. According to Hofstede, countries that score high on individualism and low on power distance and uncertainty avoidance are generally innovative and economically stable, and more likely to embrace entrepreneurship. Individualism is used to describe the degree to which the members of a culture place a greater emphasis on the group versus the singular person. In those cultures where individualism is dominant, every person is expected to focus on what is best for him/her and immediate family, whereas in more collectivist cultures, membership in a large group and the best interests of what is frequently a life-long group are primary concerns. Power distance is the degree to which members of a culture are accepting of inequalities in power. A low power distance is typified by a more democratic orientation where people tend to relate to one another as equals, regardless of actual power distinctions. High power distance countries are usually more autocratic with a formalized hierarchy which is respected. Uncertainty avoidance is the degree to which individuals prefer to conform to rules and customs as a means of dealing with anxiety by minimizing what is unknown. This preference for structured events runs counter to those from uncertainty accepting cultures that tend to express more tolerance for differences of opinion and less tolerance for authoritarian rules and expectations for conformity to strict mores. Morrison (2000) and Lindsay (2005) argue that culture is an important topic in regards to entrepreneurship because it plays an integral role in determining entrepreneurial attitudes and intentions, and whether or not entrepreneurial behaviors are desirable.

In addition, entrepreneurs are able to directly influence many aspects of cultural traditions. In order to understand what triggers the entrepreneurial spirit one must be aware of the distinct features of each society as well as the knowledge and uniqueness of its members who are motivated to pursue entrepreneurial activities (Morrison, 2000).

According to GEM reports, United States is classified as innovation-driven economy and high-income society while Iran is classified as efficacy-driven economy and middle-income society. In comparison of their cultures, the dominant culture of Iranian and U.S. nations based on Hofstede's dimensions has difference emerge.

According to Hofstede's dimensions Iran has Uncertainty Avoidance (UAI) and Power Distance (PDI) as highest dimensions. As a result of this high Uncertainty Avoidance characteristic, the society does not readily accept change and is very risk adverse. The high Power Distance (PDI) is indicative of a high level of inequality of power and wealth within the society. This condition is not necessarily subverted upon the population, but rather accepted by the society as their cultural heritage.

Iran's lowest Hofstede ranking is Individuality (IDV) at 41. The low ranking on this Dimension indicates the society is Collectivist as compared to Individualist. This is manifest in a close long-term commitment to the member 'group', is that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group.

Unlike Iran, U.S. in Hofstede ranking have Individualism (IDV) as the highest Dimension: USA (91). The high Individualism (IDV) ranking for the United States indicates a society with a more individualistic attitude and relatively loose bonds with others. The populace is more self-reliant and looks out for themselves and their close family members.

The next highest Hofstede Dimension for U.S. is Masculinity (MAS) with a ranking of 62, compared with a world average of 50. This indicates the country experiences a higher degree of gender differentiation of roles. The male dominates a significant portion of the society and power structure. This situation generates a female population that becomes more assertive and competitive, with women shifting toward the male role model and away from their female role.

The United States was included in the group of countries that had the Long Term Orientation (LTO) Dimension added. The LTO is the lowest Dimension for the US at 29, compared to the world average of 45. This low LTO ranking is indicative of the societies' belief in meeting its obligations and tends to reflect an appreciation for cultural traditions.

The next lowest ranking Dimension for the United States is Power Distance (PDI) at 40, compared to the world Average of 55. This is indicative of a greater equality between societal levels, including government, organizations, and even within families. This orientation reinforces a cooperative interaction across power levels and creates a more stable cultural environment.

The last Geert Hofstede Dimension for the US is Uncertainty Avoidance (UAI), with a ranking of 46, compared to the world average of 64. A low ranking in the Uncertainty Avoidance Dimension is indicative of a society that has fewer rules and does not attempt to control all outcomes and results. It also has a greater

level of tolerance for a variety of ideas, thoughts, and beliefs. Figures 1 and 2 show Hofstede's cultural Dimensions of Iran and U.S.A.

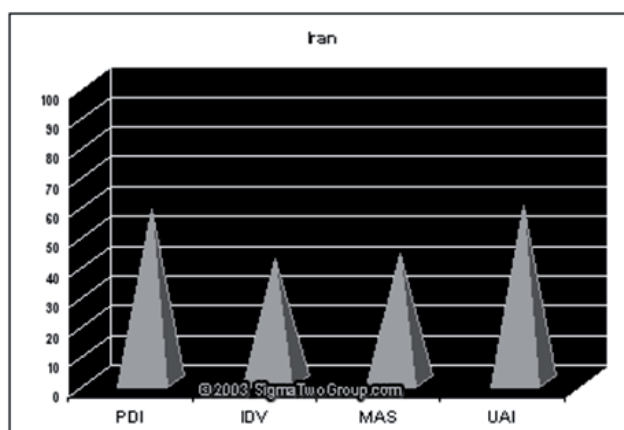


Figure 1- Iran's Hofstede Cultural Dimensions

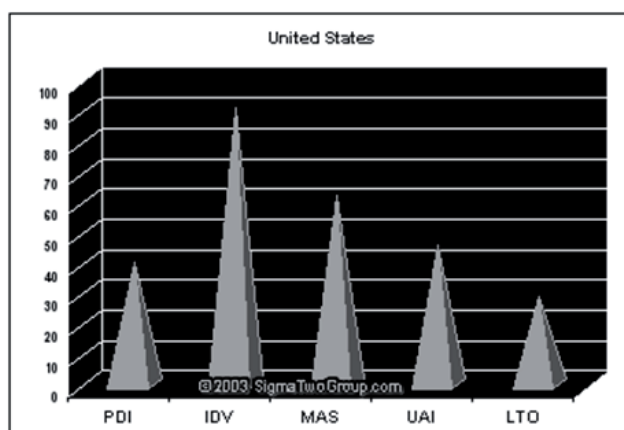


Figure 2- U.S.A Hofstede Cultural Dimensions

*Link between Attitude and Behavior*

Attitudes have a behavioral component that consists of behavioral intentions and predispositions to act in a certain way toward some subject (Shaver, 1987). The Theory of Planned Behavior argues that intention is an antecedent to behavior (Ajzen, 1991), and intentions play a crucial role in understanding the entrepreneurial process (Krueger, 1993; Krueger & Brazeal, 1994). Since various experiences can impact entrepreneurial intentions it is important to study the influence of these experiences on entrepreneurial attitudes (Robinson, Stimpson, Huefner & Hunt, 1991; Hatten & Ruhland, 1995; Politis, 2005). Past research on entrepreneurial intentions tended to focus on trait or personality characteristics (McClelland, 1961; Wortman, 1987; Hansemark, 2003), behavioral and situational factors (Gartner, 1985), and demographic variables (Gasse, 1985, Davidsson, 1995, Ede, Panigrahi & Calcich, 1998). The work of Robinson, Stimpson, Huefner, and Hunt (1991) was one of the first attempts to use an attitudinal scale to predict entrepreneurial activity. Attitudes tend to change across time and situations through an interactive process with the environment, and once a person's attitude has been measured, a prediction can be made about the person's future actions (Carlson, 1985). Robinson et al. (1991) developed the Entrepreneurial Attitude Orientation (EAO) model to measure entrepreneurial attitudes. The subscales of the EAO measure individuals' attitudes on four constructs: 1. achievement in business (referring to the results of starting and growing a business venture); 2. innovation in business (using innovative methods in business activities); 3. perceived personal

control of business outcomes (individual's control and influence on his/her business); and 4. perceived self-esteem in business (self-confidence and perceived competency in business affairs). The EAO has been used in a number of prior studies was designed specifically to measure and compare entrepreneurial attitudes. Harris and Gibson (2007) used the EAO to identify differences between U.S. and U.S. business students, while Boshoff and Van Wyk (2004) used it to examine professionals in South Africa. Additional studies have used the EAO to examine entrepreneurs in India (Shetty, 2004) and Russia (Robinson, Ahmed, Dana, Gennady, Latfullin & Smirnova, 2001). Interestingly, Lindsay (2005) used the EAO to develop a cultural model of entrepreneurial attitudes specifically for indigenous entrepreneurs. Research has linked various attitudes with entrepreneurship. For example, Gatewood, Shaver, Powers, and Garnter (2002) found that providing individuals with positive feedback about their entrepreneurial abilities had a positive impact on their entrepreneurial expectations. In addition, past failures have been shown to affect an entrepreneur's self-confidence and motivation (Gatewood & Shaver, 1991; Busenitz, 1999), thereby indicating that both positive and negative experiences can help shape one's entrepreneurial perceptions (Krueger, 1993).

Many entrepreneurial skills can be enhanced through entrepreneurial activities, especially those activities that emphasize experiential learning (Mitra & Matlay, 2004). Research has shown that education can improve individuals' skill level and overall perceptions of business creation (Morrison, 2000; Gatewood et al., 2002), and that attitudes are more likely to be influenced by education than personality traits (Florin, Karri & Rossiter, 2007). As suggested by Thompson (2004), talent and temperament are vital for entrepreneurs, and talent can be improved through participation in educational programs, particularly for those who already possess an entrepreneurial temperament. A better understanding of the entrepreneurial attitudes and intentions of young adults can be used to create more effective entrepreneurship education and support programs.

### **Hypotheses**

The current study examines the attitudes and intentions of students from two nations based upon a model which posits that entrepreneurial attitudes stem from a combination of sources – previous entrepreneurial exposure (such as mentoring relationships, actual work experience, exposure to entrepreneurial activities, etc.), as well as cultural values and practices (Hofstede, 1991). Figure 3 depicts this model; it is based upon the Theory of Planned Behavior (Ajzen, 1985) and incorporates components from Lindsay's model of Indigenous Entrepreneurial Attitudes (2005).

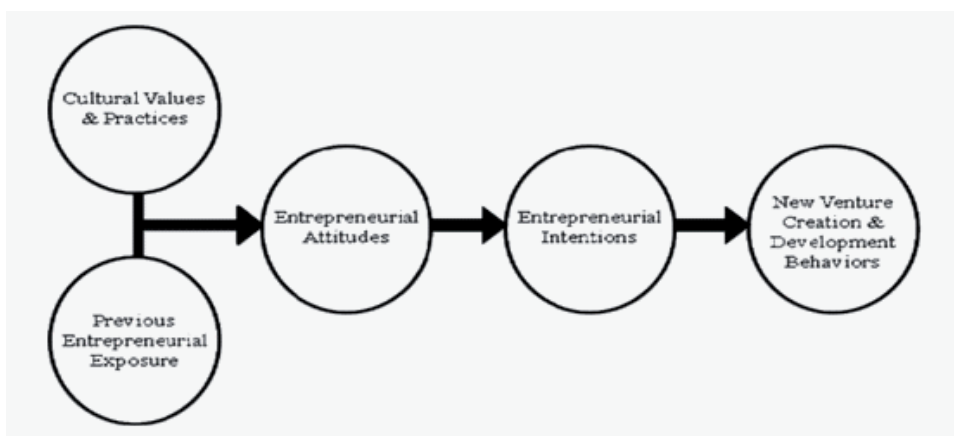


Figure 3. *Entrepreneurial Attitudes and Intentions Model*

U.S.A has been among the world leaders in economic growth over the past decades but Iran is a country

that is just taken-off for entrepreneurial development in the past decade (Jones, 2000). This distinction and differences in cultural values and practices between Iran and U.S. lead us to posit that with regard to entrepreneurial attitudes:

H1a: U.S. students will have more developed attitudes toward innovation in business than do Iranian students. This is consistent with the lower level of uncertainty avoidance and higher existing entrepreneurial infrastructure that characterizes U.S.

H1b: U.S. students will have more perceived personal control of business outcomes attitudes than their Iranian peers. This would stem from Iran's culture of strong power difference and the associated perception of control and influence as a business owner.

H1c: Iranian students will have a more developed perceived self-esteem in business than U.S. students. Although entrepreneurship itself is not as well established in Iran as in U.S., the culture there is characterized by very high levels of uncertainty avoidance (meaning that individuals believe they know the "truth").

H1d: U.S. students will possess stronger attitudes towards achievement in business. This focus on the concrete results of starting one's own business should follow from U.S.'s existing entrepreneurial history, infrastructure, and its lesser concerns with avoiding uncertainty. Although knowledge about attitudes is central to understanding future entrepreneurial behaviors, it is an indirect relationship that acts through one's intentions. As indicated in the Theory of Planned Behavior, attitudes can serve as a prerequisite to intentions and then particular behaviors. Given the fact that research has established a link between entrepreneurial attitudes and intentions and past business experience and exposure, it is also posited that differences will exist between U.S. and Iranian students in terms of their future entrepreneurial intentions such that we posit:

H2: Due to stronger overall entrepreneurial attitudes, and a significantly more established entrepreneurial environment, U.S. students will have stronger future entrepreneurial intentions than do students from Iran.

## **Methodology**

### *Participants*

Participants were 184 students enrolled at two U.S. universities (108 male, 76 female) and 97 students enrolled at three Iranian universities (39 male, 58 female). U.S. participants ranged in age from 18 to 23 years old, with an average age of 21 years; Iranian participants ranged in age from 17 to 33 years old, with an average age of 21 years. Although the current sample population utilized here represents a convenience sample, it is comprised of individuals from large, non-private institutions whose participation was entirely voluntary and anonymous.

### *Procedure*

At the start of the Fall 2009 semester, faculty teaching undergraduate courses at multiple universities in Iran and U.S. received a letter requesting their voluntary participation. The stated purpose of the study was to compare differences in entrepreneurial attitudes that might exist across cultures. Faculty members have



been asked to request that their students complete an 88-item anonymous online survey. Survey completion is entirely voluntary and no identifying information was recorded.

### Measures

We measured entrepreneurial attitudes with the Entrepreneurial Attitudes Orientation survey instrument (Robinson et al., 1991). The EAO was specifically designed to measure and predict entrepreneurship and is theoretically well grounded. It provides a composite score based on four attitude subscales: 1) Achievement in business (Cronbach's alpha = .84), 2) Perceived personal control of business outcomes (Cronbach's alpha = .70), 3) Innovation in business (Cronbach's alpha = .90), and 4) Perceived self esteem in business (Cronbach's alpha = .73). Sample items from the EAO include: I always try to make friends with people who may be useful in my business; I am ultimately responsible for my own business success; I believe it is more important to think about future possibilities than past accomplishments; I am a firm believer in thinking things through; I am full of ideas; I am open to change; I come up with bold plans; I do not have a good imagination; I would never go hang gliding or bungee jumping. The four subscales have been shown to produce 77% accuracy in predicting entrepreneurship (Robinson et al., 1991). In order to measure exposure to entrepreneurial initiatives, two questions were asked related to this: 1) Have you ever worked for a small business? 2) Has your family ever owned a small business?

### Analyses

Since the primary interest of the study was to examine differences between U.S. and Iranian students with regard to their entrepreneurial attitudes, ANOVA was used to test for differences in entrepreneurial attitudes.

### Results

Table 1 provides the descriptive statistics for all of the dependent variables of the two future-oriented intent variables and the four entrepreneurial attitudes for both U.S. and Iranian students. Table 1 also includes the results of the ANOVA testing for differences based upon nationality with regard to the attitudes shown above.

Table 1. Means and Standard Deviations for Entrepreneurial Attitudes by Nationality

		Mean	Std.Deviation
Would you like to own a small business one day?*	Iranian	4.2	1.3
	U.S.	3.9	1.3
How likely is it that you will start your own small business one day?	Iranian	3.2	1.2
	U.S.	3.5	1.25
Entrepreneurial Innovation*	Iranian	5.8	1.1
	U.S.	6	0.9
Entrepreneurial Achievement	Iranian	6.8	2.01
	U.S.	7.07	1.3
Entrepreneurial Personal Control *	Iranian	4.1	2.8
	U.S.	7.05	1.11
Entrepreneurial Self-esteem*	Iranian	5.9	0.9
	U.S.	4.78	1.04

\*significantly different at the  $p < .05$  level

Hypothesis 1 was only partially supported; significant differences were found in the hypothesized direction for the entrepreneurial attitudes of innovation, personal control, and need for achievement, but no significant difference was found for need for achievement attitudes. Hypothesis 2 was not supported as U.S. students did not report stronger future entrepreneurial intentions.

### **Discussion**

The current study examined the degree to which nationality and prior exposure were related to entrepreneurial attitudes and future intentions. In regards to overall entrepreneurial attitudes, U.S. students possessed significantly stronger attitudes related to entrepreneurial personal control and innovation, while Iranian students had stronger attitudes of entrepreneurial self-esteem. No statistical differences existed in the construct of entrepreneurial achievement.

According to Morrison (2000), it is the responsibility of individual members of a society to initiate the entrepreneurial process. This initiation process is based on both the prevalent culture of that society and personality traits of its people. The cultural context plays a critical role in determining the degree to which entrepreneurial behaviors are desirable and supported within a society. Therefore, the dominant entrepreneurial attitudes of young adults should reflect their personalized view of culture and entrepreneurial expectations.

The two attitudes which were significantly higher for U.S students – innovation and personal control – intuitively make sense as having evolved as a result of a more developed economy and entrepreneurial spirit. For example, prior research has shown that retail and service firms tend to be more prevalent in rural areas with a limited infrastructure (Headd, 2000), while innovation is related to industries that require access to more substantial resources. Herbig, Golden and Dunphy (1994) believe that culture is a primary determinant of innovation and that innovation is the core component of entrepreneurship responsible for business growth and expansion. Similarly, Zhao (2005) suggests that innovation is the source of entrepreneurship and that “entrepreneurship allows innovation to flourish and helps to realize its economic value” (p.34). An advanced economic system allows existing and emerging entrepreneurs to consider more innovative ventures and gain a higher level of control over the success of their businesses. Mitra and Golder (2002) argue that it is important to consider economic attractiveness when examining the impact of culture since economic factors can sometimes override cultural factors. As proposed by Joynt and Warner (1996), it is easier to change a culture when people believe that the survival of the society is at stake.

Despite these differences, it should be noted that Iranian students reported higher scores in their future desire and likelihood to start a new business venture, which is similar with some of the findings from the 2009 GEM Executive Report. This GEM report found that Iranian had a higher level of entrepreneurial intentions and higher tendency to entrepreneurship as a career choice. Our results are similar to the 2009 GEM report findings in that Iranian students possessed higher self-esteem towards entrepreneurship than U.S. students and a significant difference is that our results show a gap in entrepreneurial intentions among the Iranian and U.S students. This seems to indicate that more educated Iranians are just as interested in entrepreneurship as people in other middle-income nations. Since our sample is college-educated this may support past research that indicates educational attainment (Morrison, 2000), combined with entrepreneurial experiences (Reitan, 1997; Peterman & Kennedy, 2003), can have a positive impact on one's perceptions

of business creation. Morrison (2000) points out those successful entrepreneurs greatly benefit from a commitment to life-long learning, as well as exposure to positive role models, particularly family members.


### ***Research Implications***

This research provides implications at both the theoretical and practical levels. From a theoretical perspective, our findings support the contention that entrepreneurial attitudes, like other attitudes, are influenced by one's cultural background. However, these differences in culture do not necessarily dictate future entrepreneurial intentions. On the practical level, our study found significant differences with regard to desire for owning a small business one day and likelihood for doing so. It appears that as Iran evolve economically, providing access to role models of entrepreneurship, education related to entrepreneurship, and increased opportunities for business ownership, young adult's attitudes may very well supersede the traditional economic systems found in their respective nation. Specifically in regards to entrepreneurship education, our findings can be used to develop a more complete entrepreneurial profile of young adults in these countries. Morrison (2000) calls for more research to learn about entrepreneurial differences across cultures in order to develop more effective and culturally relevant programs. Past research has demonstrated that both an entrepreneurial mindset (Kuratko, 2005; Pittaway & Cope, 2007) and skill set (Gatewood, Shaver, Powers & Gartner, 2002; Mitra & Matlay, 2004; Thompson, 2004) can be enhanced through educational programs. But, as proposed by Dana (2001), one must first understand the individual's cultural history, values, and way of thinking. This information must then be reflected in the content, delivery, and marketing of such programs (Dana, 2001). The methods used to condition young adults through the formal education system can play a significant role in the development of entrepreneurial behaviors (Gibb, 1996).

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## A Preliminary Study of Top SMES in Malaysia: Key Success Factor vs Government Support Program

Daisy Kee Mui Hung  
Azura Abdullah Effendi  
Lilis Suriety Abdul Talib  
Noor Afiza Binti Abdul Rani

**Introduction:** Given that SMEs have been identified as main growth engines under Ninth Malaysia Plan (9MP), there is now a pertinent need to provide SMEs with the necessary management skills and know-how in order to compete, sustain and succeed in today's challenging business environment.

**Method:** Questionnaires were employed in the preliminary study conducted. A sample of 20 top SMEs winners of Malaysia Enterprise Award 2004-2008 was selected and 11 of them responded.

**Analysis:** This paper is based on quantitative research to examine the real contributing factors towards excellence performance among top SMEs in coping with the rapid changes in today business world. And further the paper reviews the effectiveness of government support program.

**Results:** The findings showed that there are six main factors (networking, product, ability to focus on market, customer, supportive management, and leadership) contribute to the success of local SMEs.

**Conclusion:** Lacks of accessibility of government support however do not stop them from achieving a greater height. The paper provides guidelines as to how these successful practices may be adopted and used for future direction by even start-up enterprise.

**Field of Research:** SMEs, Key Success Factors, Government Support Program, Malaysia.

### Introduction

During the 17th APEC Economic Leaders' Meeting (AELM) in Singapore (2009), one of the main thrust under the APEC's inclusive growth agenda is to enhance opportunities for all segments of the members' societies to benefit from growth. The development of SMEs is therefore identified by the 2009 Leader Declaration as an important area of emphasis for APEC for the coming years. SMEs constitute more than 90% of all businesses in the APEC region, employ between 50% and 80% of the workforce and generate about 30% of the exports. In Malaysia, 99.2% of businesses are SMEs, contributing 32% of the nation's gross domestic product (New Sunday Times, March 2009), it is evident that the present of a resilient SMEs sector assumes a pivotal role towards the overall economy of the nation. Under the Ninth Malaysia

Plan (9MP: 2006-2010), the government has allocated an extensive funding of RM3.8 billion (2008) and RM11.9 billion (2010) for SMEs with the purpose to improve and develop SMEs. Given that SMEs have been identified as main growth engines under 9MP, there is now a pertinent need to provide SMEs with the necessary management skills and know-how in order to compete, sustain and succeed in today's challenging business environment.

SMEs can be defined and interpreted in many ways based on their characteristics. In Malaysia, generally SMEs are defined based on fixed quantitative criteria such as number of full time employees and annual sales turnover. Understanding the definition of SMEs is very essential especially in facilitating the government in formulating effective development policies, support programs, as well as provision of technical and financial assistance. According to SME Corp Malaysia, the definition of SMEs differs according to sector, as shown in below (see Table 1):

a) Manufacturing, manufacturing-related services and agro-based industries:

Small enterprises are defined as companies with sales turnover between RM250,000 and less than RM10 million, or with between 5 and 50 full time employees, while medium enterprises are those with sales turnover between RM10 million and RM25 million, or with between 51 and 150 full time employees.

b) Services, primary agriculture, and information & communication technology:

Small enterprise are defined as companies with sales turnover between RM250,000 and less than RM1 million, or with between 5 and 19 full time employees, while for medium enterprises between 20 and 50 full time employees.

Table 1: Definition of SMEs by SME Corp Malaysia

	<b>Manufacturing, Manufacturing Related Services and Agro-Based industries</b>	<b>Services , Primary Agriculture and Information &amp; Communication Technology</b>
<b>Numbers of Full time employees</b>		
Micro	< 5 employees	< 5 employees
Small	5-50 employees	5-19 employees
Medium	51-150 employees	20-50 employees
<b>Annual Sales Turnover</b>		
Micro	<RM250 000	< RM200 000
Small	RM250 000 & RM10 million	RM200 000 & RM1 million
Medium	RM10 million & RM25 million	RM1 million & RM5 million

Aligned with the SME working group theme for 2009 "Helping SMEs Access Global Markets and Overcome Trade Barriers", Malaysia government have provided numerous support program aimed at preparing sustainable growth for SMEs. These assistance programs include infrastructure supports, financial and credit assistance, technical and training assistance, extension and advisory services as well as marketing and market research. According to SME Annual Report (2008), a total of 202 programs valued at RM3 billion in 2008 have been implemented involving a total of 598,000 SMEs, representing a two-fold increase from the number of beneficiaries in 2007. In enhancing the capacity and capability of SMEs, a total of 174 programs valued at RM3.04 billion were implemented in 2009. In the current challenging



economic period, many of the government policy measures introduced, including those in the stimulus packages, are to ensure that SMEs continue to have access to financing. Besides additional funds in the form of microfinancing, the new funds and schemes are in the form of guarantee facilities to ensure that viable companies including SMEs that experience temporary cash flow problem continue to have access to financing.

Despite the fact that there is strong government support, SMEs are still facing difficulty in their business operations. Although, several SMEs have been acknowledged by the government as well as private agencies for their achievement and excellent performance, they represent only a small portion of the total number of SMEs in the country. In general, problems encountered by SMEs are caused by internal and external environment, such as lack of capabilities and resources, poor management, low technology, competition, economics, technology, socio-cultural, and international factors (Hashim, 2000). According to Ghosh and Kwan (1996), the problems faced by SMEs in Malaysia are cost, shortage of workers, and competition. Furthermore, the economic crisis provides a big challenge to business operation and adds to the difficulty in assessing financial assistance or funding to overcome the shortage of capital in expanding their businesses.

Recognizing the significant role played by SMEs in the nation's economic development, the question arise on what are the real contributing factors towards the excellent performance among top SME's in today's rapidly changing business world? This study was initiated to examine key success factors that are being adopted by top SMEs and to provide some insights into SME supporting agencies and their assistance program. Hopefully, this study will provide some useful information to motivate new start-up enterprises and more of the existing SMEs to adapt and adopt to top SMEs practices that fit with the nature of their business to ultimately improve their performance. Furthermore, understanding the characteristics and constraints that are faced by SMEs will provide valuable input for the government to improve the assistance programs and to also allocate more funding to this vital sector.

For this purpose, key success factors (KSFs) and government support program (GSP) are examined by studying the winners of the Malaysia Enterprise 50 Award. This award is organized by Small and Medium Industries Development Corporation (SMIDEC) (today known as SME Corp Malaysia) in collaboration with Deloitte Malaysia. This annually organized event is aimed at acknowledging the companies that have distinct value proposition, coupled with necessary alignment and allocation of resources to effectively execute its business plan. In other words, these companies are strategically positioned and operationally efficient companies. Winners of this award are selected based on two main categories: Active Posturing and Operational Finesse. Each nominee will be short-listed based on initial screening criteria and later, an interview will be arranged with these organizations to evaluate their management capabilities and key management on the business plan.

This paper is comprised of the following: a literature review to examine the key success factors and government support programs that were examined and mentioned in previous studies, a research methodology and procedure to describe the methods employed in this study, results of the empirical study, and finally, a brief discussion and conclusion of the study.

## **Key Success Factors**

A KSF is regarded as a skill or a resource that a business can invest in, which explains a major part of the observable differences in perceived value of the offer and/or relative costs of bringing that offer to the marketplace (Bisp, Sorensen & Grunert 2001, p.55). According to Ghosh, Liang, Meng, and Chan (2001), KSFs are defined as factors critical to excellent performance of the company rather than survival. Hashim (2000) described success as effectiveness of enterprises in accomplishing their objectives. The success factors that were identified are satisfying customer needs, close working relationship between top management and employee, regionalization, leadership, availability of financial and technology resources, and support. Further, Hashim and his associates (2003) found that strong and supportive leadership, employee commitment, employee involvement, encouragement of new ideas, tolerance of risks, ambiguity, conflict, open communication among employees, profit sharing, market and customer orientated, and emphasis on entrepreneurial behaviors are important KSFs.

For an organization to be successful, Ayadurai and Ahmad (2006) believed that the entrepreneur must possess characteristics which are: innovative, creative, farsighted, right attitude in business dealing, never give up attitude, having knowledge in business, business-minded, able to work long hours, having good networking and a host of contacts, independent, as well as resilient. Rose, Kumar, and Yen (2006) suggested success factors as personal initiative, promotion of product and services, understanding market needs, and examining customer feedback. Besides that, innovation was also indicated as one of the key elements of success (Sinha, 2003) and there is significant relationship between distinctive capabilities and innovativeness on the performances of SMEs (Man & Wafa, 2007).

## **Government Support Program**

Recognizing the important role played by SMEs in the nation's economic activities, the government has introduced several assistance programs and incentives and they are called GSP. The areas that are considered essential by the government in terms of providing assistance are: management expertise, finance, land/building, facilities, and information about the market and tax deduction (Hashim et al, 2003). The government has allocated RM15.6 billion or 2% of GDP to address key areas such as facilitating access to financing, enhancing capacity building, reducing the cost of doing business and assisting vulnerable groups, including micro enterprises (SME annual report, 2008). In the 2010 budget, the government has put more attention on SMEs development in terms of enhancing the capacity and capability to face with global challenges.

Although the government has allocated a huge amount for financial assistance and provided various programs for SMEs, all this effort is seen as useless when the impact of business activities are found to be insignificant. This situation occurs when the assistance program is offered through a number of government or private agencies without appropriate observation. According to Abdullah, Latif, Bakar, and Nor (2001), the ineffectiveness of assistance programs is due to: limited number of SMEs receive full range of assistance, inefficient allocation of resources, and the programs focusing on developing only new enterprises. While in Indonesia, the lack of government support programs were due to inappropriate targeting of training, a lack of budget for managing and maintenance, a lack of qualified trainers, often exceeding their skills or machinery available or conversely focusing on skills they had already mastered, and difficulties in matching training to

workshop (Tambunan, 2007). Aside from that, some SMEs do not know how to apply for assistance, have no confidence in their proposal, and think they need someone in order to obtain government assistance (Shieh Lee, 1990). Furthermore, several previous studies have addressed that SMEs are still unaware of the availability of management training programs (Hashim, Ahmad, & Hassan, 2007) and financial assistance programs (Hashim, Ahmad, & Zakaria, 2007).

Empirically, there have been limited attempts to determine factors that can help overcome the SME's weaknesses as well as those factors that contribute to their success. Hence, we ask, what are the real contributing factors to local SME's excellent performance in today's rapidly changing business world? This paper is aimed at examining the KSFs of Malaysian SMEs by studying the organizations that won the 2004-2008 Enterprise 50 Award. Simultaneously, the interest of this study is to provide some insights into SME supporting agencies and their assistance programs. This information may be used as a guideline by new start-up enterprises and existing SMEs for exploiting their potential and consequently for improving the effectiveness of the relevant Government support programs.

### **Methodology**

**Sample:** This preliminary study focused at the organization level and therefore the unit of analysis was the organization. The identification of right respondents is essential to ensure the contribution of this study generates new knowledge that would be beneficial to SMEs. Therefore, the sample was drawn from Top SMEs winners of Malaysia Enterprise 50 Award 2004-2008. A total of 20 questionnaires were distributed, and 11 were returned, for a response rate of (55%). Only one respondent answered the questionnaire as a representative of the organization. The respondents of this study are the decision makers (Chief executive officer, senior manager, managing director or human resource manager). The majority of the respondents are drawn from manufacturing industry (64%). Over 80% of them market products abroad. Table 2 presents the profile of organization surveyed.

*Table 2: Organization Profile*

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Company Status	Bumiputra	3	27.27
	Non-Bumiputra	8	72.72
Number of Employees	<50	2	18.18
	50-100	3	27.27
	101-150	6	54.55
Average Annual Turnover	<1 Million	1	9.09
	1-5 Million	2	18.18
	5 -10 Million	1	9.09
	10-25 Million	7	63.63
Organization type	Manufacturing	7	63.63
	Non-Manufacturing	4	36.37
Market Level	International	9	81.81
	National	2	18.18

A survey questionnaire was developed by the authors. The authors critically reviewed the questionnaire items, noting any vague areas or wording, appropriateness of measures and scales, ease of response,

length and time to complete the questionnaire. A group of management experts was referred to review the survey items. The questionnaire was revised until the refinement process is completed. Parts of the instruments were adapted from previous research (e.g., Ghosh & Kwan, 1996; Morrison & Brennan, 2000) led to the development of a 13-item KSFs scale and a 10-item GSP scale. The five point Likert scale is employed in this study and they are labeled as such: (1) 'strongly disagree' and (5) 'strongly agree'.

### **Discussion**

The results were analyzed using SPSS. The means and standard deviations for the study variables are presented in Tables 3 and 4.

*Table 3: Key Success Factors of Top SMEs in Malaysia*

No	Key Success Factors	Mean	Standard deviation
1	A good networking	4.36	0.50
2	A good product/services feature	4.27	0.64
3	Able to identify and focus on market	4.18	0.60
4	A good customer and client relationship	4.18	0.40
5	A committed, supportive, and strong management team	4.09	0.83
6	A visionary, capable, and strong leadership	4.09	0.83
7	Able to develop and sustain capabilities	4.00	0.77
8	Adopting a correct strategy	4.00	0.63
9	Availability of financial and technology resources	3.90	0.70
10	Regionalization / internalization	3.90	0.30
11	A good human resource management practices	3.81	0.75
12	A good and responsive organization system	3.81	0.73
13	A good government support	3.00	1.18

*Table 4: Effectiveness of Government Support*

No	Do government bodies/agencies...	Mean	Standard deviation
1	provide consultation to your organization through an informal network?	1.19	1.54
2	communicate economic development policies to local community?	1.72	1.48
3	Identify economics development opportunities in your local area?	1.72	1.48
4	provide channels that handle the problems and issues facing by your organization? (such as advisory bodies)	2.00	1.67
5	provide consultation to your organization through a formal network?	2.18	1.54
6	have a flexible policies and regulations?	2.36	1.36
7	dedicate resources to promoting economic development ?(e.g. Economic Planning Unit)	2.72	1.49
8	provide relevant information/ knowledge that assist your organization?	2.81	1.47
9	create a local business environment that encourages business development?	2.90	1.51
10	provide relevant information/ knowledge that benefit to your organization? (such as seminars, courses, conferences)	3.00	1.61

The key factors that contribute to the success of Malaysian Top SMEs winners are presented in Table 3. The top six KSFs in order of importance are (1) a good networking; (2) a good product/services feature; (3) ability to identify and focus on market, (4) a good customer and client relationship; (5) a committed, supportive and strong management team; and (6) a visionary, capable and strong leadership. As indicated by the results, building and developing the right networks and contacts emerge as the most critical factor to the success of top SMEs in Malaysia. The findings appear to support the previous studies (Johannisson, 1990; Starr & MacMillan, 1990). Johannisson (1990) reported that building and developing the kind of relationships and networks likely to benefit the business. Starr and MacMillan (1990) suggested that good networks provide entrepreneurs with access to expertise and various support. To summarize, this study suggest that the need to establish personal connections and networks are important for the local SMEs or entrepreneurs to navigate a safe course and get various forms of supports in this unpredictable customers demands and competitive business environment.

The second most important factor in determining the success of SMEs, however, is a good product feature. This might indicate that Malaysian entrepreneurs tend to focus on what the customers want and preferences. A good product or service feature is one way to attract customer. Evidence has shown that competition is one major cause of switching behavior among customers to a new provider because of the attraction posed by them (Keaveney, 1995). Ability to identify and focus on market and good customer relationship are perceived as equally important by Malaysian successful entrepreneurs. It is reflected by the strong focus on competition and competitors' practices in Malaysian market. It is also consistent with the previous studies (Duncan, 1991; Dehayes & William, 1990; Ghosh & Kwan, 1996; Huck & Thaddeus, 1991; Prescott, 1986) that identification and focus on a market niche and being close to the customers are most frequent reasons that contribute to the small business' success.

Apart from the factors above, Malaysian entrepreneurs treated both supportive management team and visionary leadership are vital factors contributing to local SMEs' excellent performance. This suggests that leaders are encouraged to focus on aspects such as providing care and support and promote the development of followers. Strong, capable and visionary leaders have influential power to guide and motivate followers distinctly in achieving organizational goals. It is consistent with the study by Tucker and Russell (2004) who commented that an organization needs transformational leaders who provide new direction, new inspiration, and new behaviors for their organizations. These leaders are the change-agents in the organization which is crucial in an ever-changing world.

It is interesting to note that a good government support is not perceived as an important and critical factor that contributes to the success of local SMEs who are global players. As indicated by Table 4, GSP is seen as ineffective in contributing toward the organizational success (mean reported are below 3.00). The main issues addressed by SMEs are lack of (1) consultation through informal network; (2) communication of policies to local; and (3) identify economic development opportunities. Even though these assistance programs are offered, it appears that SMES facing difficulties in accessing the government support. Lacks of accessibility of government support program, however do not stop them from achieving a greater height. It is further supported by Table 5 where entrepreneurs are asked to rate the effectiveness of GSP from a scale of 1 (the least effective) to 10 (the most effective), over 80% of the respondents rated 4 and below. The finding shows that GSP is perceived unfavorably by top SMEs winners. Its causes are discussed as below.

Table 5: Effectiveness of Government Support rated by Respondents

Scale	Frequency	Percentage
1	1	9.09
2	1	9.09
3	3	27.27
4	4	36.37
5	1	9.09
6	1	9.09
7-10	0	0

Note: 1 'the least effective'; 10 'the most effective'

Respondents are provided with a list of GSP and they are asked to state (1) if they have used the GSP; (2) programs that are attended or utilized; and (3) reasons for not fully utilizing GSP. Overall, all respondents have received some sorts of the assistance program and 20% have attended the training program. The assistance program that utilized by Top SMEs are Human Development Fund (40%) and Matching Grant for Certification and Quality Management Systems (30%) (See Table 6). Most of the assistance programs that provided by government are not fully utilized due to the complicated application procedures involved, limited allocation of resources, and some activities are meant for new enterprises (Refer Table 7). It is in line with the previous research by Abdullah et al (2001) who reported that the ineffectiveness of assistance programs is due to: limited numbers of SMEs receive full range of assistance, inefficient allocation of resources, and the programs focusing on developing only new enterprises. It is interesting to find that the complicated procedure of financing application is ranked as the top reason for not receiving the full range of assistance. The main author approached local SME bank and it is found that SME banks will normally take two to three months for the processing of loan. On top of that, SME banks require numerous supporting documents comparing to commercial banks. Commercial banks normally take less than a week before the financing was approved. Of these top SMEs, only one does not know how to apply the assistance program. This finding contradicts with Shieh Lee (1990)'s study where she reported that some SMEs do not know how to apply for assistance, have no confidence in their proposal, and think they need someone in order to obtain government assistance. The possible reason could be that top SMEs represent only a small portion of the total number of Malaysian SMEs.

Table 6: GSP that are utilized by Top SMEs

Assistances and Program	Frequency	Percentage
Received Government assistance programs	10	100
Attend training program under GSP	2	20
Executive Franchise Scheme (PNB)	1	10
Small Entrepreneur Corporation Scheme (CGCM)	1	10
Human Development Fund (MOHR)	4	40
Matching Grant for Enhancing Product Packaging (SMIDEC)	1	10
Matching Grant for certification and quality management system (SMIDEC)	3	30

Table 7: Reasons for not utilizing GSP

Reason for not utilizing GSP	Frequency	Percentage
Inefficient allocation of resources	2	20
Not aware of such assistance	1	10
Government assistance is for new enterprise	2	20
Do not know how to apply	1	10
Worry of 'trade' or information being leaked	1	10
The procedures are complicated	3	30

### **Conclusion**

Understanding the real contributing factors to local SMEs' excellent performance through the lens of entrepreneurs is essential because it provides entrepreneurs, particularly young entrepreneurs with knowledge about the way they should operate their business and encourage them to be aware of potentially powerful strategies that could be used for future direction. As such, an analysis of the key success factors of top SMEs who are the existing global players would contribute towards propelling SMEs to a greater height for its future success in Asian region. The interest of the Malaysian government in developing and expanding the growth of small and medium enterprises (SMEs) has been flourishing for many years. However, despite the existence of numerous Government assistance programs, SMEs still encounter a variety of problems in their operations. GSP are seen as insufficient and not delivering enough towards developing and strengthening local SMEs. The study provides some insights into SME supporting agencies for exploiting their potential and consequently for improving the effectiveness of the relevant GSP. For policy makers and ministries, the results could serve as a reference in formulating policies or support programs aimed at assisting SMEs to gain better access to global markets, technology and finance as well as to improve their management capabilities. A better understanding of the KSFs of top SMEs and accessibility of GSP could be achieved if future research could extend to a larger sample.

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