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The dynamics of entrepreneurs' success factors in influencing venture growth

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Abstract

This study aims to investigate the formal and informal attributes of founding entrepreneurs contributing to venture growth. The study found significant relationship between venture growth and entrepreneurs with high personal initiative, focused on specific competency areas within operations, finance, marketing and human resources. In operations, founding entrepreneurs are found to be concerned with equipment selection, quality of products and services, competitive strategies planning and the improvement of product and services. Raising capital from bank and institution was the only area of concern in finance, whilst in marketing, it was promoting company and its

product and services, understanding market needs and customer feedback are prioritized. Lastly, every aspects in human resources is considered important, which includes recruiting and retaining employees, human resource policies and compensation plan, training and development, delegating and relinquishing control, develop performance appraisal and finally, employees motivation. The study showed no significant relationships between venture growth and human capital, social network support, and government support programs.

Keywords: Entrepreneur, personal initiative, human capital, competency, government support programs, venture capital, Malaysia

The opportunity to create wealth and being their own boss has attracted many to be entrepreneurs. Evidently, this has amplified the studies on small and medium enterprises' (SME) growth and more importantly, the formal and informal attributes associated with the entrepreneurs who have led their companies successfully to growth-stage. The common research areas cited in the literature are such as entrepreneurs' leadership, entrepreneurial orientation, management skills, competencies, human capital, personality traits and circle of network. McClelland (1961) asserted that qualities associated with a high need for achievement contribute to the success of new venture. Begley and Boyd (1987) found that entrepreneurs (founders) scored significantly higher than small business managers (non-founders) in need for achievement, risk-taking propensity, and tolerance of ambiguity. Brockhaus (1982) reviewed a number of psychological characteristics and conclude that need for achievement, internal locus of control and a risk-taking propensity as attributes contributing to the success of new business start-ups. On the other hand, Brockhaus and Horwitz's (1986) empirical findings showed that entrepreneurs with internal locus of control strive for high achievement.

Mill (1984) suggested that risk taking is a key factor in distinguishing entrepreneurs from managers. It is believed that entrepreneurs take greater degree of risk especially in areas where they have control or competencies in realizing the profit. Many studies have included risk taking as a major entrepreneurial characteristic. Mitton (1989) confirmed that entrepreneurs eagerly undertake the unknown and uncertain circumstances, thus the entrepreneurial inclined individuals are expected to display more tolerance of ambiguity than others. As far as innovativeness is concerned, Mitton suggested that it is the focal point of entrepreneurship and an essential entrepreneur characteristic. Indeed entrepreneurial literatures show that

entrepreneurs are significantly more innovative than non-entrepreneurs (Ho & Koh, 1992; Robinson & Sexton, 1994).

Entrepreneurs' personality traits have also been identified to have impact on organizational performance (Robinson & Sexton, 1994). Studies also found that personality traits such as locus of control and ambiguity tolerance influenced the business success directly and the business process indirectly (Entrialgo, Fernandez, & Vazquez, 2000). Kiggundu (2002) later added demographic variables to his study and found that personality traits have direct influence on the success of African entrepreneurs. Although studies on personality traits have played an important role in contributing to the success of entrepreneurs worldwide, nevertheless, personality traits have been criticized both on theoretical and empirical ground in the studies of entrepreneurship. Gartner (1988) in his research article entitled "Who is the entrepreneur?" mentioned that asking "Who" is the wrong question, but rather the personality of entrepreneur is only related to the success of business start-up through more specific mediating processes. This is due to the fact that these factors are not relevant if there is no action and initiative taken by the entrepreneurs.

Frese and Fay's (2001) study conducted on a group of employees revealed that those with higher personal initiative performed significantly better in the workplace. Research on personal initiative concentrate on the self-starting nature of entrepreneurs: how they pursue success with their proactive attitude, how to seek and grasp opportunity with their proactive approach, and how to find any solutions or necessities to overcome barriers to achieve their goals (Frese, Kring, Soose, & Zempel, 1996; Frese, Fay, Hilburger, Leng, & Tag, 1997). Entrepreneurs with high initiative are able to stay ahead of their competitors, and are role model for their employees. Initiative is goal-directed and action-oriented (Frese et al., 1997) and, therefore, closely linked to an active strategy. It is also a psychological variable behind the reason whether a person has what it takes to become an entrepreneur. An entrepreneur with high personal initiative is someone who initiate to take action and to be proactive. Whether it is to determine the success of start-ups or to successfully lead a company to growth-stage, personal initiative, which represents the ability to self-start, proactive, and over-coming barriers plays a major role. Even so, majority of the research carried on personal initiative is in relation to employees' performance and perhaps limited studies have been reported on personal initiative in relation to entrepreneurial success.

Unlike personal initiative, human capital, which is considered passive approach (where individuals simply reacting to the environment according to what they possessed), was quite extensively studied. Human capital is the theory concerned with knowledge and capacity; this includes the education level, industry experience and management experience. The review of literature showed that human capital contributes to business start-ups and venture growth. However it is also found to have positive and negative result in relation to the success of entrepreneurs in their businesses. Human capital elements of the entrepreneurs such as family-environment, education, age, work history, role models and support networks have been identified to contribute to the business venture success (Hisrich, 1990; Krueger, 1993). The assumption is that higher human capital of the entrepreneurs increases the chances of their company's survival and success (Dyke, Fischer, & Reuber, 1992; Bruederl & Preisendoerfer, 1998). Recently, Lussiers and Pfeifer (2001) empirically found that in addition to competencies and personality traits, human capital of individual entrepreneurs play a role in contributing to the success of entrepreneurs. His study found that entrepreneur with higher education level, industrial and managerial experience, and business exposure has greater chance of succeeding than people without tertiary education, minimal industrial and managerial experience, and with little or no business exposure.

Similarly, competency is one of most crucial factors to ensure the success of new business ventures. The entrepreneurs faced even greater challenge when they have successfully bring their organizations to growth and as the company moves into this stage, it experienced what observers refer to as strategic reflection point (Grove, 1996). A strategic reflection point represents a time in the life of the business when the fundamental operations have profoundly changed. According to theorists, Adizes (1979), and Greiner (1972), organizations progress through consistent, predictable phases of development known as life-cycle stages. In the start-up stage, the company is concerned with inventing the product or services, establishing a market niche, attracting new customers, and manufacturing and marketing of the product (Flamholtz, 1986). Once the company begins to grow rapidly, it will need to have more formal structures and coordination due to the increase in functional activities. In the growth stage, the entrepreneur is forced to focus on the long-term stability while maintaining the innovative and entrepreneurial spirit that made it successful in the first place. As the founding members of the company, the entrepreneur plays an important role

in the long-term business success of a new venture. The entrepreneurial leader champions the vision of the company and inspires others such as investors, venture capitalists, bankers, customers and employees to support the vision. However, at some point in time, the company will continue to grow and the founder must focus and emphasize on different areas of competencies and talents in order to lead the company to long-term business success.

According to conventional wisdom, due to the poor functional competencies of the founders, they are typically replaced by professional managers who have the experience and the necessary competencies required to manage the company when it begins to transit from a start-up stage to a growth stage company. Willard, Krueger, and Freeser (1992), found no evidence that professional managers performed better in high-growth companies than the original founders. They observed that many founders could learn to manage growth effectively. Therefore, the assumption that a professional manager must be employed may no longer be valid. This study challenged the conventional wisdom by revealing the process by which successful entrepreneurs transform themselves into professional managers. While studies found that founders could have the competencies to perform equally well as professional managers, there are very few studies on the similarity and the areas of competencies these successful entrepreneurs and managers focused on for growth stage companies. Many studies found that majority of the business failure were due to the lack of management skills or competencies (O'Neill & Duker, 1986; Terpstra & Olson, 1993). Bruno, Leidecker, and Harder (1987) studied ten failed high-technology firms and concluded that there were three major reasons for the failure: 1) financial difficulties, 2) product/market problems and 3) managerial problems. Hence, entrepreneurs who have the necessary competencies especially in the area of operations, finance, marketing and human resources, and management skills required for the business are more likely to be successful at start-up (Prahalad & Hamel, 1990; Swiercz & Spencer, 1992). The areas of competency has been greatly researched in most developed countries, and most literatures revealed that they are positively related to companies at venture growth, and likewise, there is no literature found pertaining to such topic in Malaysia. Thus one of the aims of this study is to examine the areas of functional competencies that founding entrepreneurs focused on and contributes to the success of managing companies at growth stage.

Apart from the competencies mentioned earlier, Bruerderl and Preisendoerfer (1998) found in their research that social network support is related to both, survival and growth of newly founded companies. A network approach assumes that entrepreneur's ability to organize and coordinate networks between individuals and organizations are critical for starting up a company and business success. It was found that formal support sources were hardly used, the institutions mostly mentioned were banks (Birley, Cromie & Myers, 1991). Support from informal network such as friends, relatives, previous employers and acquaintances have found to benefit the business. Thus another aim of this study was to examine to what extent social network support significantly contribute to the success of managing companies at growth stage.

Lastly, questions have also been raised pertaining to the government's role in supporting the entrepreneurs both during start-up and venture growth. Many are unaware of funds and programs provided by the government, while some believes it is impossible to obtain such assistance, others are just simply ignorant of it. In comparison with neighboring countries pertaining to these support programs, an article mentioned that the literature published by the Malaysian Industrial Development Authority appears to be preoccupied with internal bureaucratic concerns rather than the entrepreneur's needs (Dana, 1987). Malaysian government recognizes that about 25 percent of the country's economic performance is contributed by the SMEs. Therefore the government has put in place many regulatory, legal and financial frameworks conducive to SME start-ups and development under various strategic plans such as Second Industrial Master Plan (1995-2005), Financial Sector Masterplan (2001-2010), Small and Medium Industry Development Plan (2001-2005) and Eight Malaysia Plan (2001-2005). Currently, there are five major areas of government support programs for SMEs in Malaysia, among which are: financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports (Abdullah, 1999).

Yusuf (1995) found in his study that government support is one of the critical success factors for small business in South Pacific. Governments in developing countries play a role in promoting and supporting companies by providing incentives and infrastructure. However, although there are numerous agencies and institutions established by the Malaysian government to assist SMEs, it is still unclear whether these programs are accessible to SMEs and how far do SMEs utilize the programs. Therefore, it

is also the interest of this research to investigate whether entrepreneurs of growing enterprises are utilizing government support programs to grow their businesses and if not, what are the reasons for not doing so.

The growth of successful small medium enterprises in Malaysia plays a very crucial role in the development of the country's economy and unemployment issue. Nevertheless, 79,310 businesses discontinued during the year 2002 (CCM, 2002), and the numbers are rising. Evidently, it is crucial and important to examine the factors contributing to successful founding entrepreneurs in Malaysia. Studies have been done to examine factors and elements possessed by founding entrepreneurs contributing to the business start-up success, such as the entrepreneurs' leadership, human capital, management skills, functional competencies, personality traits and so on. Nevertheless, there are very few studies found to examining these elements in relation to venture growth and particularly yet to found any in the Malaysian context. Thus this study was initiated to examine the relationships between personal initiative, human capital and competencies of the successful founding entrepreneurs of Malaysia in respect to venture growth. In addition, the study was aimed to identify whether entrepreneurs at venture growth are aware and fully utilizing government-support programs, and to what extent these programs are beneficial to their business.

Method

The target population for this study is Malaysia Enterprise 50 (E-50) winners for the year 1997 to 2003. E-50 is an annual award program organized by the Small and Medium Industries Development Corporation (SMIDEC), Malaysia. This award recognizes the achievements of Malaysia's enterprising homegrown companies which are well positioned for the future. 50 winners are selected from among the nominations received, and the evaluation is based on the companies' management and financial performance. From the 350 winners in the Enterprise 50 list, there are only 252 unique companies as they are repeated winners. A letter was sent to all 252 founding CEOs requesting for their participation. However, only 100 of them managed to participate in this study. Self completion questionnaire was utilized to collect data for this study.

Questionnaires were delivered to all participants personally by the researchers. Literature review and feedback from the panel of experts provides inputs for the development of the research questionnaire. The pilot study further refines the questionnaire prior finalizing it. The Cronbach's Alpha values for all the items were well above the commonly acceptable value of .70 (Fowler, 2002). The questionnaire was divided into five sections. The first section collected data pertaining to human capital, whereby the participants were asked to indicate their level of education, whether family owned the business, number of years working experience prior to owning business, and number of year's management experience prior to starting the business. The second section measures competencies which are divided into two types: functional competencies and interpersonal competency. There are four functional competencies - finance, operations, marketing and human resource. Interpersonal competency is specifically relating to social network support. Participants were asked to respond on a five-point scale; (1) being no emphasis and (5) being major and constant emphasis for each of the five competencies which they focused while managing growth. The questions are similar to Lussier and Pfeifer (2001) and Yusuf (1995); however, for the purpose of this study additional questions relevant to the various competencies were added. The third section is in regards to government support programs, questions asked were whether the entrepreneurs are aware of the availability of such programs and if so, are they utilizing these programs and whether there are any difficulties faced in obtaining assistance of these programs. Dichotomous 'yes' or 'no', multiple choices and open ended questions were used in this section.

The dependent variable is the venture growth level. Venture growth is measured by annual sales growth. To measure sales growth, the participants were asked about the company sales for the past three years (2002 – 2004). Compound Annual Growth Rate or CAGR was used to calculate the growth rate. Finally in the last section, respondents' background information was collected.

Binary logistic regression is a technique for predicting the mean value of a binary response variable as a function of one or more covariates. It was employed in this research to examine the relationship between a single dependent variable, venture growth (VG), which is dichotomous and several independent variables. Ordinary regression can not safely be applied to this

kind of response variable because the venture growth is classified as either high growth or low growth, and the variance of binary variable is not constant. In addition, an ordinary regression approach would yield predicted values which lie outside the range of feasible values for the dependent variable. Instead, logistic regression models the probability of a positive response (e.g. ‘high growth’) given the values of other variables.

Findings and Discussion

The relationship between the dependent variable, VG, and fourteen other independent variables were examined, and the result is showed in Table 1. If the significance level of the Wald statistic is small (less than 0.05) then the parameters are useful to the model and are significantly related to venture growth.

Table 1: Logistic Regression (Trimmed Model)

Variable/Construct Description	Factor	B	S.E.	Wald	df	Sig.	Exp(B)
Educational level	HC1	-1.089	0.527	4.26	1	0.039	0.337
Working experience prior owning business	HC2	1.15	0.981	1.373	1	0.007	0.038
Parents own business	HC4	-1.936	0.969	3.987	1	0.046	0.144
Competitive strategies and planning Improvement of product and services	OPER Group 3	2.611	0.959	7.41	1	0.006	13.61
Raise capital from institution	FIN Group1	1.088	0.371	8.598	1	0.003	2.969
Promoting company		-1.222	1.222	3.948	1	0.047	0.088

and its product	MKTG	2.429					
Understanding market needs	Group						
Customer feedback							
Market analysis							
Recruitment and retraining employees		2.756	1.143	5.814	1	0.016	15.737
HR policies and compensation plan	HR Group						
Training and development of staffs							
Delegating and relinquishing control							
Develop performance appraisal							
Motivate employees							
Personal Initiative	RELTPI	2.322	0.79	8.636	1	0.003	10.198
-2 Log-likelihood Value		56.44					
Model Chi-Square		54.072					
Goodness of Fit		3.887					
Cox & Snell R Square		0.418					
Nagelkerke R Square		0.625					

Note: regression coefficients (B), standard error (S.E), Wald statistic, degrees of freedom (df), significance level (Sig), odds multiplier (Exp(B)).

Human Capital

Among the four variables in human capital tested using binary logistic regression, HC1, HC2 and HC4, which are 'education level', 'working experience prior owning business' and 'parents own business' respectively, the results were significant at $p=.039$, $p=.007$ and $p=.046$. Higher education level helps the entrepreneurs to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneurs with information and understanding about the industry and

thus, assisted them in venturing into the current business they are in. Entrepreneurs with parents who owned business may have the opportunity to learn and acquire skills from the parents from a young age and also understood the requirements of being an entrepreneur to get them ready for what to anticipate in owning business ventures. Whereas HC3 which is the 'management experience prior owning business' was found not significant at $p=.241$, apparently individuals who were found successful in their small business venture were less reliant upon their previous business skills, they seemed more open to growth and changed, planned for that change through delegation and strategic planning, and sought to learn or use general business skills (Kemelgor, 1985), this could also suggest that the many years of managerial experience might have affected their ability to judge, analyze, make quick decision and calculate risk well, hence their experience may not benefit their business venture.

Competencies

The results also showed that only certain areas among the four areas of the competency, namely operation, finance, marketing and human resource, were deemed as important by the CEOs and they are significantly related to VG.

OPER_Group3 which are 'competitive strategies and planning' and 'improvement of product and services' scored significantly high at $p=.006$. The entrepreneurs would want to find out more about the competitors, by emphasizing more on competitive and strategies planning, it allowed the entrepreneurs to ensure that the products or services are constantly improving to have the competitive advantage. OPER_Group1 and OPER_Group2 were found not significant to VG, with $p=.062$ and $p=.201$ respectively, the variables in OPER_Group1 and OPER_Group2 are 'equipments selection', 'day to day operations', 'production scheduling and planning' and 'quality of products or services', these are considered day-to-day operational tasks and are likely to be relinquished by the team of founding CEOs and delegated to their subordinates. As for 'quality of products or services', it could be because the companies had installed proper quality standard and checks such as ISO standard and 5S, therefore, the entrepreneurs are only concerned on the overall quality of the companies products or services and not the day to day process. Another possible

explanation is the entrepreneurs know that the quality systems are in place; therefore, they are only concerned with unforeseen quality issues.

The variables for finance, FIN_Group1 and FIN_Group2 have different results, FIN_Group1 has a value of $p=.003$ which scored significantly high with VG, FIN_Group1 which is to raise capital from institution showed significant result because only by being able to source for external funds and to manage the finance well, it would ensure the long run success of the venture (Dunn et al., 1993). FIN_Group2 on the other hand has a value of $p=.862$, similarly to operation, founding CEOs would not allocate for daily tedious tasks such as 'record keeping', 'financial control', 'budget planning' and 'cashflow management'. Although, literature review supported that cashflow management is important during business start-up, this non-significant relationship is explained by Teutenberg (1997) when he found that cashflow generally post as a concern and problem for smaller businesses rather than larger organizations, this is due to the fact that larger companies have greater access to people to train executives to manage it and plan for it. The result showed that marketing is significantly related to VG. MKTG_Group which represents all the marketing functions such as 'promoting company and its product and services', 'understanding market needs', 'customer feedback' and 'market analysis', has a value of $p=.047$. Trulsson (2002) found that it is crucial for entrepreneurs to appreciate the importance of putting customer first and what that implies for their operations is crucial. In all businesses, founding CEOs will always placed emphasis on ensuring the company's product or service being sold, as the livelihood of the company depend it. Knowing the demands of customers will definitely ensure the long term success of business ventures. As for human resource, HR_Group which consists of all the human resource functions such as 'recruiting and retaining employees', 'HR policies and compensation plan', 'training and development of staffs', 'delegating and relinquishing control', 'develop performance appraisal' and 'motivate employees', was found significant in relation to VG with a value of $p=.016$. The finding seemed universal, and it is expected that entrepreneurs delegate many of the important tasks to trustworthy and skilled professional employees, thus they would be involved in recruiting and retaining employees, especially high levels staffs. However, recruiting new staffs would naturally mean developing them would be the next important step, and this required human resources development activities (Ardichvili et al., 1998). The result showed that successful entrepreneurs at VG have greater

involvement with training and developing staffs so that the employees are able to help sustain and grow the company in the long term. In addition, by providing a clear career path and career development helps to retain the employees. Having proper performance appraisals and compensating employees appropriately allows the employees to be more satisfied with their jobs and thus, they will stay with the organization. Motivating employees through providing them with the vision and mission of the companies and how these employees are fitted into the bigger picture again ensures that these employees will continue to grow and stay with company. Variable SC_Group which stands for social group support has a value of $p=.476$, SC_Group was not significant to VG, this indicate that the concept of “who do you know” is important may only apply for entrepreneurs during startups (Eisenhardt and Schoonhoven 1996), while other studies found no significant relationship between social network and business performance (Butler et al., 1990; Merenda et al., 1994; Aldrich, Reese and Dubini, 1993).

Government Support Programs

Variable GS1 which stands for government support programs was found not significant to VG. It was found that entrepreneurs expressed their frustration in applying such loans, as most of the procedures and requirements pertaining to the loan were the preoccupied with internal bureaucratic concerns rather than the entrepreneur's needs (Dana, 1987).

Personal Initiative

Personal Initiative which represented by RELTPI was found significantly related to VG with a value $p=.003$. It was the intention of this research to examine whether entrepreneur with high PI is significantly related to venture growth as employee with high PI performed better in a job situation (Frese and Fay, 2001). The result indicated that entrepreneurs with high PI which also mean the ability to self-start, proactive attitude and capability to overcoming barriers, contributed to the success and the growth of their companies.

Conclusion

Many start-up entrepreneurs do have the necessary skills and opportunity to create a giant “in the making” company, nevertheless, concerns such as the

lack of education, experience, moral and financial support have always been the few major stumbling blocks or rather mental blocks holding them back from their journey to success. From this research, it has been made clear that a large number of entrepreneurs affirmed personal initiative as one of the major key to success. It has also illustrated that entrepreneurs with high personal initiative will further enhance their management, improve business operation skills, and embark in a continuous learning and development attitude. High personal initiative entrepreneurs are typical “go-getters” and persist in all their work until results are achieved. This attitude will serves them well in areas such seeking funds and supports, and to keep themselves motivated, these so-called “lacks” in them will be overcome with their proactive and self-starter personality.

Entrepreneurs know that their focus in the areas of competency changes in order to grow their company. However, entrepreneurs at times found to be reserved when they are unclear or anticipating involvement of higher level or different aspects of competency. To assist them to grow the company, the research has also provided a clear indication as to which area of competency the entrepreneurs should focus on. Sound knowledge and expertise of the following competency must be acquired and employed. Human resource is a clear distinction to be focused on, as all areas of HR are found to have significant relationship with venture growth. This includes areas such as recruiting and retaining employees, HR policies and compensation plan, training and development of staffs, delegating and relinquishing control, develop performance appraisal and motivate employees.

As the company grows, the founding entrepreneurs must be attuned to promoting company and its product and services, understanding market needs and customer feedback. Knowing the trends and what comes next as accurately as possible will allow long term continuation for the business. In addition to knowing what the customers’ needs and expectations are, entrepreneurs naturally pay close attention to quality of products or services, competitive strategies and planning and the improvement of product and services. Founding entrepreneurs must also be involved in strategic planning pertaining to competition, because this ensures the future and the survival of the company. While moving away from the day-to-day accounting tasks, the entrepreneurs need to look at the bigger picture as far as the company’s finance, it is advised to delegate the daily accounting activities to the

professionally hired and concentrate in higher level of financial management such as raising capital from institution.

Limitations of the study

The cross-sectional research design does not allow the firm establishment of a cause and effect relationship, and thus post as a limitation to the study. Therefore, a preferable longitudinal research which would generate more accurate findings, however, this would not be possible due to the time and cost constraints. The sample consists of founding entrepreneurs from the E-50. Thus, the generalization of the results is limited to entrepreneurs in venture growth only.

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