THE ENTREPRENEUR'S BACKGROUND CONTRIBUTES TO BUSINESS SUCCESS: A CASE STUDY AMONG ENTREPRENEURS IN KOTA KINABALU

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DISSERTATION SUBMITTED IN PARTIAL FULFILMENT FOR THE MASTER OF BUSINESS ADMINISTRATION

PERPUSTakaAN
UNIVERSITI MALAYSIA SABAII

SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAII
2011
BORANG PENGESAHAN STATUS DISERTASI

JUDUL : THE ENTREPRENEUR’S BACKGROUND CONTRIBUTES TO BUSINESS SUCCESS: A CASE STUDY AMONG ENTREPRENEURS IN KOTA KINABALU

IJAZAH : SARJANA PENTADBIRAN PERNIAGAAN

SESIPENGAJIAN: 2009-2010

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I hereby declare that the material in this thesis is my own except for quotations, excerpts, equations, summaries and references, which have been duly acknowledged.

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DEGREE : MASTER OF BUSINESS ADMINISTRATION
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ACKNOWLEDGEMENT

I would like to thank and acknowledge to those who have contributed to the completion of this study. I am deeply grateful to Dr. Amran Harun our Research Methodology lecturer, who has devoted in teaching and helping us through this research project. I sincerely thank my supervisors En. Mohd. Irwan Dahnil Sikumbang and Prof. Dr. Syed Azizi Wafa Syed Khalid Wafa for sharing their ideas and guide me. Also not to forget Pn. Julita Joseph the Administrative Officer from Department of Licensing and Finance of Kota Kinabalu City Hall, I am grateful that she has been really supportive in my research and providing the data that I needed. I have also been very fortunate to have friends; Razalie Sindong, A.H. Lizahwati, Barbarawati Richard and Cynthia Lim for the valuable suggestions, input, thoughtfulness and time which they have put into helping me.

There are many other individuals who have contributed significantly to this research project and I would like to thank them. I also thank all my MBA friends and SPE lecturers, it has been an amazing opportunity to know and work with you all. Above all, I thank the Lord for blessing me and my family.

Edward B. Binty
20th June 2011
ABSTRACT

THE ENTREPRENEUR’S BACKGROUND CONTRIBUTES TO BUSINESS SUCCESS:
A CASE STUDY AMONG ENTREPRENEURS IN KOTA KINABALU

The purpose of this study is to examine the relationship between entrepreneur’s backgrounds and the entrepreneur’s success to remain in the business in Kota Kinabalu, specifically at the heart of central business district which is fast growing area in the city. The focus is on entrepreneurs in service sector under the Small Enterprise category. The contribution of service sector to the nation’s economy growth has increased steadily. However, it is hardly to find a research done on the success of smaller service-based businesses. Even limited numbers of research on entrepreneur’s background as the driving force that leads to survival and business success. This study would intend to fill up the gap of knowledge. The entrepreneur’s backgrounds consist of variables such as Education Level, Management Experience, Industry Experience, Age, Parents Owned Business and Marketing Skills. The variables in this study were adopted from the Success versus Failure Prediction Model. As this model becomes the bases of this study, the questionnaire and measurements were also adapted from it. This study involving a sample of 92 entrepreneurs who were selected through systematic sampling design, the database was obtained from the Department of Licensing and Finance of Kota Kinabalu City Hall.
**ABSTRAK**

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CHAPTER ONE:

INTRODUCTION

1.1. Overview
The future force that will stimulate the economy growth and should be reckoned with will be the entrepreneurship. Entrepreneurship has often been cited by many researchers, as the engine of economic growth (Reynolds et. al., 1994). The entrepreneurship could be the answer for a country economics need, by providing job, wealth, innovation and give support to the larger corporations by providing the small material parts, which needed by large company.

The questions that everyone is asking, who are the entrepreneur? It was believed the word ‘entrepreneur’ came from French word ‘entreprendre’ which was uttered by French economist Jean-Baptiste Say, he refers entrepreneur as someone who ‘undertakes an enterprise, especially a contractor, acting as intermediatory between capitals and labor’.

The interpretations could vary from one scholar to another scholar. However, the common characteristic of an entrepreneur are self confidence and optimistic, energetic, diligent, take initiatives, flexible and able to adapt, independent minded and so on. They are also among the key factor of successful entrepreneur in business.

A definition offered by Shane and Venkataraman (2000), in which entrepreneurship categorised under business, seeks to find opportunities to create something new and are discovered or created by specific individuals, later use
various means to exploit or develop them, thus producing a wide range of effects. This definition has received wide acceptance.

**Table 1.1: Definition of SMEs in Malaysia**

<table>
<thead>
<tr>
<th>Definition of SMEs</th>
<th>Micro Enterprise</th>
<th>Small Enterprise</th>
<th>Medium enterprise</th>
</tr>
</thead>
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<tr>
<td>Manufacturing, Manufacturing-related Service and agro-based industries</td>
<td>Sales turnover of &lt;RM250,000 OR full time employees &lt;5</td>
<td>Sales turnover between RM250,000 and &lt;RM10 million OR full time employees between 5 to 50</td>
<td>Sales turnover between RM10 million OR full time employees between 51 to 150</td>
</tr>
<tr>
<td>Service, Primary Agriculture and Information and Communication Technology (ICT)</td>
<td>Sales turnover of &lt;RM200,000 OR full time employees &lt;5</td>
<td>Sales turnover between RM200,000 and &lt; RM1 million OR full time employees between 5 and 19</td>
<td>Sales turnover between RM1 million and RM5 million OR full time employees between 20 to 50</td>
</tr>
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</table>

Source: Extracted from SME Corp. Malaysia website (2010)

In Malaysia, it is known that SMEs is not just become the backbone of the economic growth but it is identified as catalyst to promote domestic-led growth. Lesson learned from the economic crisis in 1997-1998, has taught us that in order for the economy to prosper, the country should not overly rely on foreign direct investment (FDI). Foreign investor are trying to get the best deal of their investment, their concern is mainly about the escalating cost. They may shift their business to other countries which more profitable, especially if the cost of doing business are cheaper.
1.2. Problem identification

Most studies which were carried out in various countries either same or different researcher have concluded that small business is important in job creation (Smallbone and Wyer, 2000) and for some reason smaller businesses are perceived as more innovative than larger firm (Tonge et. al, 2000). In some developing countries, it was identified that service sector among the major source of income. Therefore, a lot of attention and research have been done on services but mostly on the larger scale or which involves bigger corporations.

However, not all business venture start as bigger entity, Sexton (1989) stated that new businesses may not automatically become large businesses. Some may begin from small. These small businesses may succeed and grow, there are a lot of contributing factors and among them is the entrepreneur’s background. Of all the factors, entrepreneur’s backgrounds are believed to be more controversial than others, as it involves human factors which are hard to predict.

As the Malaysia’s economy moving out of the traditional economy such as agriculture and manufacturing, the service sector is becoming more important and the future direction of the economy growth.

The contribution of service sector to the nation’s GDP has increased steadily and government realizes there is a need to put more effort into it either in policy making or incentives, in order, to get higher benefits of it. Over the years, the services sector has been rapidly growing its size and contribution to the Malaysia economy (Table 1.2). Excluding government services and construction sector, the private sector-led services industry is the largest economic sector in Malaysia. It contributed about 46 percent to GDP in 2007, up from 45 percent in 2002.
Table 1.2: Malaysia: Percentage Share of GDP by Sector, 2002-2007

<table>
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<tr>
<th>Sector</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Jan-Sep 2007</th>
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<tr>
<td>Agriculture</td>
<td>8.3</td>
<td>8.4</td>
<td>8.2</td>
<td>8.0</td>
<td>7.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Mining</td>
<td>10.2</td>
<td>10.3</td>
<td>10.0</td>
<td>9.4</td>
<td>8.8</td>
<td>8.5</td>
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<tr>
<td>Manufacturing</td>
<td>29.0</td>
<td>30.0</td>
<td>30.7</td>
<td>30.8</td>
<td>31.1</td>
<td>30.4</td>
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<tr>
<td>Construction</td>
<td>3.9</td>
<td>3.8</td>
<td>3.5</td>
<td>3.3</td>
<td>3.1</td>
<td>3.0</td>
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<tr>
<td>Services</td>
<td></td>
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<td></td>
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<td>Private</td>
<td>44.7</td>
<td>43.6</td>
<td>43.7</td>
<td>44.3</td>
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<td>Government</td>
<td>6.6</td>
<td>6.7</td>
<td>6.6</td>
<td>6.8</td>
<td>7.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Less: FISIM*</td>
<td>4.5</td>
<td>4.4</td>
<td>4.2</td>
<td>4.0</td>
<td>3.9</td>
<td>3.9</td>
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<tr>
<td>Plus: Import Duties</td>
<td>1.7</td>
<td>1.6</td>
<td>1.4</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
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<td>Total</td>
<td>100.0</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</table>

Note: * Financial Intermediation Services Indirectly Measured

The other benefit of small business is the creation of employment. According to Normah (2006), micro establishments (entrepreneurs) represent 79.4 percent (411,849) of SMEs and they predominate in the services sector at about 80.4 percent, small establishments constitute 18.4 percent and medium establishment is 2.2 percent. SMEs are contributing about one-third of Malaysia's GDP and providing over 56 percent of total employment in the country (Economic Review, 2010). As such, the role of SMEs is to provide stronger backbone to the Malaysia economy.

As shown in Table 1.3, the services sector is expected to lead by growing at 7.2 percent per year in the 10 MP.
Table 1.3: GDP Growth by Economic Activity (in constant 2000 prices)

<table>
<thead>
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<th>Annual Growth (%)</th>
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<td>9th Malaysia Plan</td>
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<td>GDP</td>
<td>4.2</td>
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<td>Agriculture</td>
<td>3.0</td>
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<td>Mining</td>
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<td>Manufacturing</td>
<td>1.3</td>
</tr>
<tr>
<td>Construction</td>
<td>4.4</td>
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<td>Services</td>
<td>6.8</td>
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</table>

Source: The Economic Planning Unit, Prime Minister’s Department, Putrajaya, Tenth Malaysia Plan 2011 – 2015.

In the context of Sabah economy, services sector is a major contributor to Sabah’s GDP. In 2005 its contribution is about 48.9 percent, in which wholesale and retail trade, and government services were the highest contributors, each contributing 24.4 percent and 21.7 percent respectively. The services industry also provides the highest number of jobs: 639,000 persons were employed in the services sector, which accounted for 53.3 percent of total employment in Sabah (Yearbook Statistic of Sabah, 2006).

In this study the focus is in Kota Kinabalu which is the capital city of Sabah, it covers an area of 350,702 square kilometres. On 2nd February 2000, Kota Kinabalu becomes the sixth city in Malaysia. In Kota Kinabalu City, the zoning method was used to divide the vast area into eight sub zone. An overall, Kota Kinabalu encompasses areas such as Tanjung Aru in Southern goes up until Karambunai and Kota Kinabalu Industrial Park (KKIP) in Northern, Gaya Island and the islands surrounding and Menggatal area. The business concentration is in the town which is also the central business district.

Data from the Department of Licensing and Finance of Kota Kinabalu City Hall, in the year 2010, around 31,438 businesses were registered and issued
permits by the department. They comprises from small units of business such as vendors and hawkers to large size such as hotels, hypermarkets, food-based manufacturing and more.

The entertainment and recreational business shows increasing in numbers of registered business and it is under the service sector. It is interesting to know how service sector especially the small businesses could successfully remain in the market. Because of the contribution of small business to the nation's economy, it is good to see that a lot of actions have been taken by the government to encourage more people to become entrepreneurs. However, it is equally important to know the longevity of the entrepreneur's in business. Therefore, to have understanding of the success and failure of firms will be good, as we would know the condition of our economy.

1.3. Problem Statement.
The main concern of this project is to examine the relationship between the entrepreneur's background and how entrepreneur's success in sustaining a business. As reference of past researches, comparison could be made and whether there is consistency with previous findings. Edelman et. al. (2002) suggests the critical resources that a firm have are actually most likely held by the individual entrepreneurs that could be seen from their skills, knowledge, abilities, experience and education. The entrepreneurs is seen as decision maker and have strong influence on the business formation strategy (Masurel et. al., 2003) and responsible for the firm's policy, direction and development (Yu, 2001).

Large number of studies confirmed that the person who forms a business is highly responsible for its success and failure (Hall and Fulshaw, 1993; Shane and Venkataraman, 2000). By focusing on the entrepreneur's background of small business, we would be able to have better understanding of the issues related to entrepreneur's background and business survivability towards the entrepreneur's success in business. As Smallbone et. al. (1995) mentioned that the small firms
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