

**FACTORS INFLUENCING THE SUCCESS OF
MICRO AND SMALL ENTERPRISE (MSE) IN
KOTA KINABALU**

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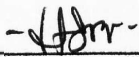
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ABSTRACT

FACTORS INFLUENCING THE SUCCESS OF MICRO AND SMALL ENTERPRISE (MSE) IN KOTA KINABALU

This study is carried out in order to understand the success factors of micro and small enterprise in Kota Kinabalu. Therefore, this study is aim to determine the relationships between the various factor such psychological traits, managerial skills, social network and entrepreneurial orientations with the success of Micro and Small enterprise (MSEs). Data collection will be conduct through administration of survey questionnaires and a total of 225 had participated in this research. Based on the statistical result, need for achievement, locus of control, innovativeness and proactiveness are supported the hypothesis. However, managerial skills and risk taking had no relationships with the enterprise success performance. A further research needs to be done by make comparison between the micro and small enterprise.



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ABSTRAK

Kajian ini bertujuan menentukan hubungan yang wujud antara pelbagai faktor seperti faktor sikap psikologi, kemahiran pengurusan, dan orientasi keusahawanan terhadap kejayaan perniagaan. Pengumpulan data telah dijalankan melalui soal selidik dan seramai 225 telah menyertai dalam kajian ini. Berdasarkan hasil statistik, factor seperti kehendak untuk pencapaian, locus kawalan, inovatif, dan proaktif menyokong hipotesis. Walau bagaimanapun, kemahiran pengurusan dan pengambil risiko tidak mempunyai mempunyai hubungan yang positif dengan prestasi kejayaan penguasa. Kajian lanjut perlu dilakukan dengan membuat perbandingan di antara peniaga mikro dan kecil-kecilan.



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CHAPTER 1

INTRODUCTION

1.0 Introduction

For this chapter one, it will be divided into eight sections which is start from background of the study. The second section will be identifies of the problem statement continue with the research question and research objectives which will be explain in the third and fourth section. The fifth and the sixth section reveal the scope of study and the significance of the study respectively. The definition of the variables and key important terms used in this research will be explain in the seventh section. Finally, the summary and organization of remaining chapters will be elaborate as the last section.

1.1 Background of Study

Nowadays, the words of Micro and Small sized enterprise (MSEs) entrepreneur became synonymous and been widely viewed as important asset for nation because MSEs can promise the stability of nation economy due to their capability in order to force economy growth. Even though there are only consists a small committee per enterprise but their contribution are too big and serve as the foundation, the backbone and pillar in fulfilling the vision and ambition of the country to achieve 2020. Therefore, numbers of researcher do realize the important of entrepreneur and they already started to discuss this especially by the economists since in eighteenth century. Then, it continued to be analyze deeply which is indirectly MSEs became one part of the most important aspect which had attract the interest not only economists but also the policymakers, academic and even university students are talking about MSEs. Moreover, due to its capability in order to force economy growth, it's widely been accepted as key strategies to develop country economic and as a weapon to sustain the country competitiveness in facing the increasing trends of globalization (Schaper and Volery 2004; Venkatachalam and Waqif 2005).

This has been proved through the history which shows that economic progress has positive significant in many countries so that actually answering why entrepreneur was identified as the agent of changes in world economy (Lambing & Kuehl, 2000) because MSEs not only creates wealth for it country but also at the same time they also provide job opportunities (Postigo and Tamborini 2002; Othman, Ghazali et al. 2005; Gurol and Atsan 2006). This is also been supported by Birch (1987), he claimed that company with workers less than 100 people create more job opportunities compared to any company which have number of employees more than 100 people within 9 to 10 years. They have proved the first statement claimed by Zenkin (1981) that without the entrepreneur, the country development of socio economic activities may not be possible so MSEs are needed by the world as it is often associated with the economy development.

Recognizing this fact, numbers of studies in many countries has claimed to focus on the development and promotion of MSEs due to its strongly contribution such as provide jobs opportunities, enhance national gross domestic product (GDP) and additional tax receipts (Iraj and Besnik, 2011, Aris, 2007). For example in New Zealand, Small and Medium Enterprises including its Micro enterprise conquered almost 86% of total 259,000 business established and provide 27% of total employment (Robert and Leo Paul, 2003). Meanwhile in Japan, they claimed that micro and small included medium enterprise established more than 98% of all business and employ over 69% of the total workforce (Jasra et al., 2011). In Malaysia, 97.3% (645,136) of the total 662,939 company established are SMEs and 77% out of 97.3% is from micro enterprise with the contribution of 32.5% of the nation's GDP and share 57% of the total employment (National SME Development Council, 2011).

As in other counties, Malaysia government see this as an opportunity and this enterprise had receive considerable attention many years ago by established many corporations such as government agencies like Small and Medium Enterprise Corporation Malaysia (SME CORP Malaysia) and Malaysia External Trade Development Corporation (MATRADE), National SME Development Council, SME Bank, MITI, Mara and many more to monitor and assist the entrepreneur in order to continue and always success. Furthermore, government has prepared 24

programmes especially only for micro enterprise with US\$0.9 billion and according to National SME Development Council (NSDC) 2012, our government already spent RM26 billion just for developing a programmes for enterprise in around 11.6% from the overall expenditure development during the ninth Malaysia plan periods (2006 - 2010) in order to support and helping them to excel.

In addition, Malaysia government has been suggested to keep focus and support them through the development of a master plan of the enterprise in the period 2010 to 2020 after a long time MSEs play a very important role in the economy of Malaysia and considered them as the engine of domestic investment. This is because the role and contribution become increasingly important in order to achieving our 2020 vision and developing our country as an industrialized nation.

1.2 Problem Statement

Enterprises are very important because they contribute significantly to economic growth because enterprise enhance GDP growth for second quarter of 2012 around 5.4% and already contributed 32.5% of the nation's GDP and share 57% of the total employment creation (National SME Development Council, 2011). Moreover, this employment creation indirectly leads more people to having income due to getting a job which results an increasing in the demand for goods and services. Furthermore, income also will results in more purchases of goods and services which can enhance nation economic growth as a whole. As a result of the increased economic growth, the general standard of living of people can be improved especially in Sabah because Sabah has been claimed as the higher unemployment rate which maintains an average of 5.5% from 2009 to 2012 compared other state in Malaysia only 2.968%. According to Moorthy et al. (2012) and Stefanovic, Milosevic & Miletic (2009), they also claimed a same thing which is enterprise are important in order to change our country to be a high-income and knowledge-based economy.

However from the observation, our country has been matched and rivaled by many other countries so Malaysia can no longer be in a static state. In fact, Malaysia must move faster because Malaysia's competitiveness is no longer located on the cheap labor cost due to many other countries provide more cheaper labor costs compared to Malaysia. Moreover, the economic situation is still uncertain and at the

same time Malaysia's major trading partners of the United States (U.S) is still looking at the formula to revive its economy. Due to the global environment has changed completely, so indirectly it forcing Malaysia to form and to find new mechanisms. This is because according to Global entrepreneurship monitor (GEM), reported indicates that Malaysia still lags behind other developing country in developing country (Ahmad & Xavier, 2012) even though our government has provide variety types of massive idea.

Moreover, according to the SME Master Plan 2012 – 2020 from SME Corporation Malaysia, most of the small enterprise including the medium enterprise are concentrated in the Selangor State with 35.7% share of all SMEs and followed by Johor (10.3%), Perak (8%) and Kedah (6.8%) meanwhile for micro enterprises are predominant in all state especially high in the eastern and northern states namely Kelantan, Perlis, Terengganu, Kedah and Pahang where they make up 88 – 95% of all enterprises. This is proof that Sabah for MSEs are still left behind.

Shah and Ali (2011) reported that the 3.5% of new venture shut down in period 1- 2 years while 54% fails for the period 4 years so proven that enterprises failure rates are high. The rates also been supported by Noor Hazlina Ahmad and Seet (2009) which shows that enterprise failure rates extremely high at 60% in their first 5 years while other country like Australia failure rates are only around 23%. In order to solve the failure rates problem and increasing contribution GDP from 32% for year 2010 into 41%, 59% to 62% increasing for employment creation and 19% to 25% for total export by 2020, focusing on the enterprises as the unit of analysis are very important at least it will improve the understanding and the likelihood of business success (Stokes and Blackburn, 2002).

Therefore, the purpose of this study is to focusing on the relationship of variable which that can determine and as a key contribute towards micro and small enterprises success especially in Kota Kinabalu, Sabah. In addition, this study will suggesting four independent variable as success factors which are psychological traits, managerial skills and entrepreneurial orientation to be test in order to determine if this variable can influences enterprise success.

1.3 Research Question

This study is to investigate the independent variable such as personality factor, managerial skills, motivation and customer services has the relationships with the entrepreneurial success on micro and small enterprise (MSEs).

- i. Does psychological traits such as need for achievement, risk tolerance and locus of control influences micro and small enterprise (MSEs) success in Kota Kinabalu?
- ii. Does a managerial skill such as technical skills, human skills and cognitive skills influence micro and small enterprise (MSEs) success in Kota Kinabalu?
- iii. Does Entrepreneurial Orientation such as innovativeness, proactiveness and risk taking in firm influence micro and small enterprise (MSEs) success in Kota Kinabalu?

1.4 Research Objective

This paper is proposing to test the hypotheses linking the influence of personality traits, managerial skill, motivation and customer service factors on micro and small enterprise success in Kota Kinabalu. The overall objectives of this research are to examine:

- i. To investigate the relationship between psychological traits towards micro and small enterprise success.
- ii. To identify the relationship between managerial skills towards micro and small enterprise success.
- iii. To examine the relationship between Entrepreneurial Orientation towards micro and small enterprise success.

1.5 Scope of the study

The target respondent for this study is the founder or the owner of the micro and small enterprises which are located in Kota Kinabalu, Sabah. Furthermore, the respondent for this study will be carry from differ business types. This study will measure the independent variable of personality traits, managerial skills and entrepreneurial orientation with dependent variable micro and small business success by using convenience sampling technique in order to select some of the enterprise entrepreneurs in Kota Kinabalu, Sabah. Self administrative questionnaire will be applied to collect the data.

1.6 Significant of the study

Since enterprises are an important for our nation economy as well as for Sabah so factors that influence the success of micro and small enterprise must be established. Therefore, this study is to be design to contribute towards the understanding of personality traits, managerial skills and entrepreneurial orientation to micro and small enterprise success. In addition, this suggestion factors success actually can be seen as the tools which that can be consider important and as an option in order to increase the level and the number of enterprise success.

As a result, the establishment of these factors will result in both practical and theoretical implications; first, it can be used as a tentative solutions and strategies to increase the rate of success of MSEs in which is necessary to increase the levels of employment and economic growth by Sabah policy makers and planners. Second, this study finding might provide valuable information to the owner of the enterprises by becoming a guideline to improve their probability to success especially in Kota Kinabalu, Sabah. Third, these findings also are helpful for those who are still new in this industry of the MSEs by make recommendations to improving the managerial skill, the important of entrepreneurial orientation and the strong of personality traits.

1.7 Definition of the Variable / Key Important Terms

This section explains briefly on the terms used in this study. For the purpose this study, the following definitions of key terms are assumed:

Micro and Small Enterprise (MSEs)

The definition of MSEs used in this study is based on the definition provided by SME Corporation Malaysia which defines MSEs in each of the respective sectors based on the annual sales turnover (Less than RM250,000 or RM10 million) or number of full-time employees (Less than 5 or 50).

Micro and Small Enterprise (MSEs) Success

Chandler & Hank (1993) defined success can be measure based on enterprise performance which including the assumption and satisfaction with growth. Moreover, the researchers also claimed that success can be achieved through self - satisfaction and not necessarily through financial achievement because majority micro and small enterprise are no intention into larger entities and satisfied even if there is only a little or no growth and yet still happy. Therefore, as long as those SMEs satisfied with their current business condition such as the enterprise are still operating or remain in businesses, then they stated that their businesses are success because it is already fulfill their personal achievement.

Psychological Traits

Frese, Brantjes and Hoon (2002) defined the psychological traits as a drive for achievement, locus of control, risk tolerance and a competitive nature which are been found to relate to success.

Need for Achievement

Shanthakumar (1992) & Solymossy (1998) defined that need for achievement is the motive to do well and to achieve a goal to a set of standards as well as a dream of idea that they will struggling to reach.

Locus of Control

Solymossy (1998) defined that locus of control is an individual perception to believe that the outcome of events are within their ability to influence the course of life which resulting in their assigning personal responsibility for the outcome to their abilities and expertise rather than attributing the cause of events to serendipity, luck or chance.

Risk Tolerance

Solymossy (1998) defined that risk tolerance as a individual disposition towards how much they will subject themselves to potential personal or financial loss or damage when confronted with uncertain circumstances or conditions.

Managerial Skills

Katz (1974) defined skills as ability which is manifested in performance, not merely in potential but also ability to transform knowledge into practice. Furthermore, Katz cited that managerial skills are consists of technical skills, human skills and cognitive skills.

Technical skills

Javahrizadah and Charmian (2009) defined technical skills is the application from the knowledge, methods, skills, techniques and tools that are needed perform a tasks.

Human skills

Ghaderi, Nazaripoor and Khaksar (2013) defined that human skills as individual ability and judgment in working together with other people as well as will involves the understanding and motivation.

Cognitive Skills

Gurzund, Chegini and Taheri (2012) defined that cognitive skills is the individual ability to understand the complexity of their firm or enterprise and try to figuring out.

Entrepreneurial Orientation

Wiklund et al defined Entrepreneurial Orientation as a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods and practices.

Innovativeness

Muller & Thomas (2000) emphasizes that innovation leads to the introduction of new goods and services through a new combination of the existing resources.

Proactiveness

Lumpkin and Dess (1996) define proactiveness as anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition.

Risk – Taking by firm / enterprise

Miller (1983) defined that risk taking is a firm level types of risk taking which firms proclivity to engage in risky projects and the owner's preferences for bold versus cautious acts to achieve firm's or enterprise objectives.

1.8 Summary and Organization of Remaining Chapters

The background of the study, problem statement, question, objective, scope, significant of this study and definition of important terms will be explained in chapter 1. Chapter 2 will address the literature review on the variables and will explain the previous study which is related to enterprise success and also will elaborates a bit regarding it relationship between the independent variable with dependent variable. The Conceptual framework and the research methodology of the study will exhibit in chapter 3 through the development of 4 hypothesis testing. Then, chapter 4 is a discussion on research methodology result or the finding which that includes research design, research instruments, and data collection data analysis. Chapter 5