

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

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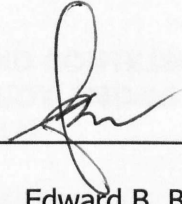
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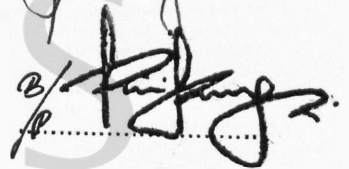
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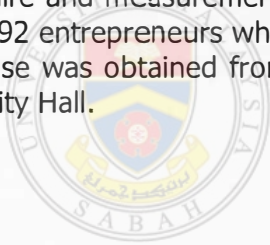


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ABSTRACT

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.



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ABSTRAK

Tujuan kajian ini dijalankan ialah untuk mengetahui hubungan antara faktor latarbelakang usahawan dengan kejayaan usahawan mengekalkan perniagaan di kalangan usahawan yang terdapat di pusat 'central business district' yang merupakan kawasan paling pesat membangun di Bandaraya Kota Kinabalu. Fokus adalah usahawan-usahawan dalam perniagaan sektor perkhidmatan di bawah kategori Industri Kecil. Sumbangan sektor perkhidmatan terhadap pertumbuhan ekonomi negara telah menunjukkan peningkatan yang berterusan sejak kebelakangan ini. Walau bagaimanapun, agak sukar untuk mendapatkan hasil kajian terhadap kejayaan perniagaan skala kecil dalam perniagaan berasaskan perkhidmatan. Agak terhad juga kajian terhadap latar belakang usahawan yang menjadi faktor penggalak kearah kelangsungan dan kejayaan sesebuah perniagaan. Kajian ini berharap dapat memenuhi ruang tersebut. Latar belakang usahawan yang dikenalpasti adalah Tahap Pendidikan, Pengalaman Mengurus, Pengalaman dalam Industri berkaitan, Umur, Ibubapa yang memiliki perniagaan dan kemahiran dalam pemasaran. Pembolehubah ini diambil daripada 'Success versus Failure Prediction Model' dan model ini adalah sandaran kepada kajian ini. Oleh itu, soalselidik dan pengukuran yang digunakan adalah adaptasi dari model berkenaan. Kajian ini meliputi responden seramai 92 orang yang terpilih melalui persampelan sistematik (systematic sampling design), berdasarkan database yang diperolehi daripada Jabatan Perlesenan dan Kewangan di Dewan Bandaraya Kota Kinabalu.



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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 intermediary 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

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

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

Sector	2002	2003	2004	2005	2006	Jan-Sep 2007
Agriculture	8.3	8.4	8.2	8.0	7.9	7.6
Mining	10.2	10.3	10.0	9.4	8.8	8.5
Manufacturing	29.0	30.0	30.7	30.8	31.1	30.4
Construction	3.9	3.8	3.5	3.3	3.1	3.0
Services						
Private	44.7	43.6	43.7	44.3	44.7	46.4
Government	6.6	6.7	6.6	6.8	7.1	6.9
Less: FISIM*	4.5	4.4	4.2	4.0	3.9	3.9
Plus: Import Duties	1.7	1.6	1.4	1.3	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: * Financial Intermediation Services Indirectly Measured

Source: Department of Statistics, Malaysia, National Accounts. Third Quarter 2007.

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 per cent per year in the 10 MP.

Table 1.3: GDP Growth by Economic Activity (in constant 2000 prices)

	Annual Growth (%)	
	9 th Malaysia Plan	10 th Malaysia Plan
GDP	4.2	6.0
Agriculture	3.0	3.3
Mining	-0.5	1.1
Manufacturing	1.3	5.7
Construction	4.4	3.7
Services	6.8	7.2

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

have higher possibility of failure and rampant. It is a common perception, compare to bigger corporation, entrepreneurs of small business are most likely to 'close shop' or forced to go out of business because of the nature of the business which are relatively smaller and its fragility when exposed to the fierce competition in the business world.

Other study by Wilson and Morris (2000), discovered that service firm may have different growth patterns than manufacturing do, and even within the service sector, different types of firms show different growth patterns. By exploring the small business in the context of service sector business in Kota Kinabalu, this study will discuss on entrepreneurial characteristic and how entrepreneurs in services business may succeed to sustain the business, as more research should be done to investigate in more depth on factors contribute to the business success of service-based entrepreneurs.

As we had discussed earlier, the small businesses will bring lots of benefit because it provide jobs opportunity and as a catalyst to economy's growth as whole. However, in every successful start up business there are a few who may not able to survive longer. **There are not so much research has been done that focus on entrepreneur's background as the driving force that leads to entrepreneur's survival and success in small business. This study would intend to fill up the gap of knowledge, as the longer an entrepreneur remain in the business and prevent involuntary exit, the more successful the entrepreneur is.**

1.4. Objectives of Study.

The aim of this project is to find out the relationship of entrepreneur's background and the success of the entrepreneur to sustain the business. Among the background factors that have been identified are; level of education, management experience, industry experience, age, the influence of parents who own business and marketing skills. These will be the independent variables. On the other hand, it

will not be easier to determine the business success. As previous researches gave inconsistent definition of business success, in general it was divided into two main categories; financial and non-financial.

Business success is much difficult to define the exact meaning, it varying to one person to another person. It's hard to define specifically the meaning of "success" as it involves not narrow range of criteria associated with the terms. The diverse perceptions regarding the definition of success have created difficulty (Beaver, 2002). For this study the business success is defined by the entrepreneur's success to sustain the business venture or survivability as it is more objective.

This study will replicate the research done by Robert Lussier in 1995, who came up with the Success versus Failure Prediction Model. This model was used to explain how the business may achieve success or failure. There are 15 variables that Robert Lussier had identified and six of them were selected in this study, as they represent the entrepreneur's characteristic or background. The six variables are those mentioned above. Thus, this study is about to test the variables which may explain the entrepreneur success in sustaining the business, among entrepreneurs in Kota Kinabalu.

Therefore, the objectives of this study are as follow;

- i) To examine the relationship between education level among entrepreneurs and business success.
- ii) To examine the relationship between management experience among entrepreneurs and business success.
- iii) To examine the relationship between industry experience among entrepreneurs and business success.
- iv) To examine the relationship between age among entrepreneurs and business success.

- v) To examine the relationship between parents owned business among entrepreneurs and business success.
- vi) To examine the relationship between marketing skills among entrepreneurs and business success.
- vii) To examine the correlations among all variables (Education Level, Management Experience, Industry Experience, Age, Parents Owned Business, Marketing Skills and Business Success).

1.5. Scope of Study

Using a survey technique, this field study will focus on Kota Kinabalu central business district which is in the heart of the city area with small business entrepreneurs as the sampling unit and focus on services venture which is categorised by Kota Kinabalu City Hall as entertainment and recreational business. The entertainment and recreational business category was selected because, it is the intention of this study to look into small business under service sector and according to the Department of Licensing and Finance of Kota Kinabalu City Hall (DBKK), it is the category of business that has increased steadily in Kota Kinabalu. These businesses are also governed by the rules of Public Entertainment Ordinance 1958 for Public Entertainment Rules 2009. The study is hypothesis testing in nature, with entrepreneur's background as independent variables (education level, management experience, industry experience, age, parents owned business and marketing skills) and dependent variable is entrepreneur's success to sustain the business which was measured by years in business.

The sampling units are from the list of registered businesses in Kota Kinabalu of the year 2010 which were obtained from the Department of Licensing and Finance of Kota Kinabalu City Hall (DBKK). The information acquired from the list is trading name, owners name, Mykad number, permit number and address.

This information will determine the location of the premises, so that it will be easier to identify which one is supposed to be selected.

The categories of businesses are Small Enterprise according to SME definition by SME Corp. Malaysia (Table 1.1.1). The time period of research is within six months from January 2011 until June 2011. However, data collection is conducted in two months from May 2011 to June 2011.

1.6 Definition of variables and measurement

The definition of the dependent variable and independent variables will take into account the conceptualization from the literature review, as this study referred the study of Lussier and Halabi (2008), therefore the definition of variables and the measurement will also taken from early work of Lussier (1995) study, where the Success versus Failure Prediction Model as the model used.

1.6.1 Business Success as Dependent Variable

The dependent variable in this study is business success, which is defined as the entrepreneur's success to sustain the business in the market, which in line with the definition by Pennings *et. al.* (1998). The entrepreneur chooses to stay in business because of the positive effects that he received. The duration of the business longevity is measured with number of years.

1.6.2 Education level as Independent Variable

In this study, the education level is defined as a demographic variable, which shows the level of knowledge progression of a person received. This is in line with the definition by Handbook of Household Survey (1984). In this study the source of education are from formal institution of learning such as schools, college or university. The measurement used is number of years of studying. The higher the entrepreneur's education levels the higher the number of years.