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ENTREPRENEURIAL INTENTION IN MALAYSIA**

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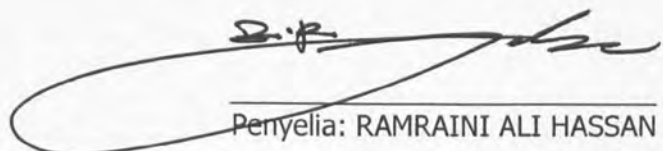
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Penulis: MOHAMED RAFIQ BIN GHAZALI  
Alamat: 31, Taman Cerah, Jalan Gudon,  
88450, Kota Kinabalu

  
TANDATANGAN PUSTAKAWAN

Tarikh: 30 Ogos 2012

  
Penyelia: RAMRAINI ALI HASSAN

**UMS**  
UNIVERSITI MALAYSIA SABAH

**THE EFFECT OF PSYCHOLOGICAL TRAITS  
ON ENTREPRENEURIAL INTENTION IN  
MALAYSIA**

**MOHAMED RAFIQ BIN GHAZALI**


**THIS REPORT IS SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS  
FOR THE  
MASTER IN BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS AND ECONOMICS  
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2012**

## DECLARATION

I hereby declare that this report is my own work, except for extracts and summaries for which the original references are stated herein.

Date : 23.07.2012

---

MOHAMED RAFIQ GHAZALI  
PE20098854c

## CERTIFICATION

**NAME** : MOHAMED RAFIQ BIN GHAZALI  
**MATRIC NO** : PE20098854C  
**TITLE** : THE EFFECT OF PSYCHOLOGICAL TRAITS ON  
ENTREPRENEURIAL INTENTION IN MALAYSIA  
**DEGREE** : MASTER IN BUSINESS ADMINISTRATION  
**VIVA DATE** : 08 AUGUST 2012

### DECLARED BY

1. SUPERVISOR(S)

**Signature**

**PUAN RAMRAINI ALI HASSAN**

\_\_\_\_\_

**PROF. DR. SYED AZIZI WAFA SYED KHALID WAFA**

\_\_\_\_\_

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## **ABSTRACT**

This study is to identify the effects of psychological traits on entrepreneurial intentions of higher learning student in Malaysia and study the moderating effect of risk taking propensity. Students from private and public higher learning institution in the Sabah, Malaysia completed measures of Locus of Control, Innovativeness, Tolerance of Ambiguity, Need For Achievement, Risk Taking Propensity and Entrepreneurial Intention. The results of the survey showed that Locus of Control, Innovativeness, Need for Achievement affect the entrepreneurial intention except Tolerance of Ambiguity of students. Except Locus of control, all variable do not provide statistical evidence that risk taking propensity moderate the relationship with entrepreneurial intentions. This paper concludes the study with a discussion of implications of findings and suggestions for future research in this area of study.

## **ABSTRAK**

*Kajian ini adalah untuk mengenal pasti ciri-ciri psikologi kepada niat keusahawanan para pelajar pengajian tinggi di Malaysia dan mengkaji kesan moderator daripada kecenderungan mengambil risiko. Pelajar pengajian tinggi dari institusi pengajian awam dan swasta yang di Sabah, Malaysia telah mengisi surver yang mengukur Lokus Kawalan, Inovasi, Toleransi Kekaburan, Keperluan Untuk Berjaya, Kecenderungan Mengambil Risiko dan Niat Keusahawanan. Keputusan kajian menunjukkan bahawa Lokus Kawalan, Inovasi, Keperluan Untuk Berjaya memberi kesan kepada Niat Keusahawanan kecuali Toleransi Kekaburan. Kecuali Lokus Kawalan, semua pembolehubah tidak memberikan bukti statistik bahawa Kecenderungan Mengambil Risiko memberi kesan kepada hubungan pembolehubah dengan niat keusahawanan. Kertas kerja ini menyimpulkan kajian ini dengan perbincangan implikasi penemuan dan cadangan untuk kajian akan datang.*

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## **CHAPTER 1**

### **Introduction**

Ismail, M., Khalid, A. S., Othman, M., Jusoff, K., Rahman, N. A., Kassim, M. K., & Zain, R. S. (2009) , entrepreneurship development in Malaysia has been growing at a steady rate. According to Nasurdin, Ahmad & Lin (2009), entrepreneurship is in fact a catchphrase in the Malaysian context. Because of its importance to the Malaysian economy, entrepreneurship has become one of the priorities on the national agenda of the country, this shown by the Malaysian government on the Tenth National Plan by simplified the bankruptcy laws that purposely to support a calculated risk- culture, eliminate the humiliation of failure and allow high calibre and credible entrepreneurs who fail to become active once more. The value of entrepreneurship in Malaysia is proven by existence of the various supporting policies as well mechanisms such as physical infrastructure, business advisory, and funding for entrepreneurs. Entrepreneurial education has also become an essential element of many curriculums at tertiary level in both public and private institutions of higher learning. In view of the fact that future entrepreneurs could come out of the population that is currently undertaking studies at colleges and universities, entrepreneurship education is being used as one of the tools to encourage the transition of graduates to entrepreneurship.

Nasurdin, Ahmad & Lin (2009) point out that the increase in entrepreneurial awareness is in partnership with the aspiration of the Malaysian government to avoid dependency by citizens on the existing organizations (public sector) for

employment opportunities by encouraging young adults, and in particular graduates from the county's universities to create employment through venture creation. The well-known view of 'creating employers rather than employees has been considerably preached so as to boost young Malaysians' interest in entrepreneurship since new ventures contribute considerably to the GDP of the country and also create new jobs. In addition, 'employment creation' is very crucial in supporting the vision of Malaysia of becoming a developed country by the year 2020. Efforts have therefore been intensified, and strategies as well as policies drawn by the Malaysian government to support and increase entrepreneurial activities, and to encourage the growth of self-employment country-wide through services, small businesses, agriculture, and petty trading (Ismail et al., 2009).

In spite of these efforts, the government is yet to achieve the intended results with its plan of promoting self-employment among the Malaysian citizens. According to Ismail et al (2009), self-employment rate in fact fell from 1.8 million headcounts (24 percent) in the year 1989 to 1.6 million (18 percent) in 1997, implying a decrease of 200,000 headcounts within 8 years. This is an indication that there is a decrease in interest in entrepreneurship. Though some studies conducted among university students show that a significant portion of them would like to establish and run their own businesses, there is also substantial evidence in studies showing that there is a lower entrepreneurial intention. Brenner, Pringle & Greenhaus (1991) for example found that while 55 percent of the participants preferred to pursue a career in business, only 5 percent of these indicated the willingness to run their own business. Given that self-employment or



entrepreneurship is critical in creating employment and wealth for the development of the nation, understanding its predictors is regarded to be very important.

Educators, researchers, practitioners, scholars and policy makers all consider entrepreneurial behaviors as the straightforward solution that will reduce the unemployment crisis in Malaysia and also fuel growth of the country's economy (Ismail et al., 2009). Abdullah (1999) argues that in developing nations such as Malaysia, entrepreneurship through venture creation is regarded as a mechanism to improving income distribution, stimulating economic growth, and for remodeling an economic structure that has in the past highly been dependent on large organizations. Entrepreneurship is essentially central to the economic health of Malaysia. Realizing its importance in economic as well as social development of Malaysia requires understanding of its predictors. It is argued that entrepreneurial venture result from careful thought as well as actions (Grundstén, 2004). Entrepreneurship is therefore considered to be an example of planned behavior. Many studies have tried to establish the factors that distinguish between people have strong entrepreneurial intention and those who do not have it. For example, Grundsten (2004) suggests that entrepreneurship is affected environmental factors. Other studies such as Khan et al (2011) however argue that in addition to environmental factors, entrepreneurial intentions are also influenced by psychological traits such as innovativeness, self-efficacy, and locus of control. Guided by the theory of planned behavior and basing on the discussed arguments, this research study proposes to study the effects of family background and psychological traits on entrepreneurial intention in Malaysia by students as

participants. A quantitative research will be undertaken in which data will be collected through a survey of students from public and private higher institutions.

### **1.1 Research Problem**

Entrepreneurship has been acclaimed by scholars, practitioners, policy makers and educators as the key to economic growth in developed as well as developing countries. The objectives of regional growth, employment creation and industrial development are all dependent on entrepreneurship. According to Zaidatol & Afsaneh (2010), entrepreneurship has changed the pathways of markets as well as economies. It has resulted in new products and service creation. Entrepreneurship is considered to be the motivation behind innovation and creativity which are very vital to economic development as well as prosperity. Economists argue that entrepreneurs play a very imperative role in economic as well as social growth. The entrepreneur is in fact considered to be the mechanism for improving and transforming the economy through their innovativeness which results in increased economic efficiencies, job creation, sustained employment, and reduces over-reliance on the government and other large organizations for job opportunities.

Entrepreneurship is especially important developing countries such as Malaysia which is currently facing economic and social problems due to increased level of unemployment among graduates (Izedonmi & Okafor, 2010). In addition, Malaysia's vision of becoming a developed economy by 2020 greatly depends on employment creation as the country does not currently have sufficient funds to support this vision and at the same time support a large population of unemployed workforce. Though many strategies have been put in place at micro and macro



levels by the Malaysian government all over the country through policies to provide the required infrastructure as well as a supportive environment for entrepreneurial ventures, Malaysian citizens (Malays) still fail to contribute a larger share in the country's economy which is dominated by Indian and Chinese firms (Awang, A., Shaifu, A. K., Abd, A. Y., Kamsol, M. K., Mohammad, I., Rozihana, S. Z., & Abdul, R. S., 2009). According to Firdaus, A., Jamil, H., Abdul, R. D., Gluma, S., & Abg, Z. A. (2009), this is partly due low entrepreneurial intentions and lack of capabilities among Malay entrepreneurs. Awang et al (2009) attribute this trend to lack scarcity of research on factors that influence the entrepreneurial attitudes of Malays as most of the studies on entrepreneurship in Malaysia have focused on the personality traits of *Bumiputra* (Malaysian natives) who tend to be independent, competitive and resilient.

According to Carter, N. M., Gartner, W. B., Shaver K. G., & Gatewood E. J. (2003), various cognitions, social conditions, and personality traits affect an individual's decision to venture into entrepreneurial activities. This study specifically seeks to investigate the effect of a set of psychological traits on entrepreneurial intentions among Malaysians students.

## **1.2 Research Questions**

1. What is the effect of locus of control on entrepreneurial intentions of higher learning institution?
2. What is the effect of need for achievement on entrepreneurial intentions of higher learning institution students?

3. What is the effect of tolerance of ambiguity on entrepreneurial intentions of higher learning institution students?
4. What is the effect of innovativeness on entrepreneurial intentions of higher learning institution students
5. Does risk taking propensity moderate the effect between locus of control and entrepreneurial intentions?
6. Does risk taking propensity moderate the effect between need for achievement and entrepreneurial intentions?
7. Does risk taking propensity moderate the effect between tolerance of ambiguity and entrepreneurial intentions?
8. Does risk taking propensity moderate the effect between innovativeness and entrepreneurial intentions?

### **1.3 Research aim and Objectives**

The aim of this study is to identify the effects of psychological traits on their entrepreneurial intentions in Malaysia and moderating effect of risk taking propensity by undertaking a survey of higher learning institution students. To study will seek to achieve the following objectives first for the research aim/purpose to be achieved.

1. To study the effect of locus of control on entrepreneurial intentions of higher learning institution students
2. To study the effect of need for achievement on entrepreneurial intentions of higher learning institution students
3. To study the effect of tolerance of ambiguity on entrepreneurial intentions of higher learning institution students

4. To study the effect of innovativeness on entrepreneurial intentions of higher learning institution students
5. To study the moderator effect of risk taking propensity on the effect between locus of control and entrepreneurial intentions
6. To study the moderator effect of risk taking propensity on the effect between need for achievement and entrepreneurial intentions
7. To study the moderator effect of risk taking propensity on the effect between tolerance of ambiguity and entrepreneurial intentions
8. To study the moderator effect of risk taking propensity on the effect between innovativeness and entrepreneurial intentions

#### **1.4 Scope of the study**

This study seeks to explore entrepreneurship in Malaysia and specifically seeks to establish the effect of psychological traits on entrepreneurial intention among Malaysians. With respect to psychological traits, this study will only examine the effects of: locus of control, need for achievement, tolerance of ambiguity, and innovativeness on entrepreneurial intentions of the students.

This study will collect data from students (both male and female) who are in their third and final year of study in various disciplines from different public and private institutions. The study will collect quantitative data using survey questionnaires which will be self-administered to the participants. Statistical methods will be used to analyze data and inferences as well as recommendations made based on the findings that will be obtained.



### **1.5 Significance of the study**

As stated before, Malaysia is currently undergoing economic and social problems due to increased level of unemployment especially among graduates (Izedonmi & Okafor, 2010). Malaysia's vision is also to become developed by 2020. To achieve this vision, Malaysia needs to address the problem of unemployment as the public funds are not enough to support the current large population of unemployed workforce. Researchers, practitioners as well as policy makers have agreed that entrepreneurship is the most effective strategy to dealing with this problem. The government's efforts to support entrepreneurship through policies at macro and micro levels have not yielded the desired results as most of Malaysians continue to rely on existing organizations for employment.

Very few Malaysians have actually made use of the funds provided to start new business ventures. There is a need to for study to be conducted to establish why in spite of the situation (high rates of unemployment), and the support being provided by the government, many Malaysians fail to engage in entrepreneurial activities. One way to achieve this is by establishing the predictors of entrepreneurship.

This study therefore seeks to investigate the effect of psychological traits on entrepreneurial intention in Malaysia by collecting data from higher learning institution students. The findings of the study will give more insight on the factors that motivate Malaysians to engage in entrepreneurial activities

## **1.6 Definition of terms**

### **1.6.1 Entrepreneurship**

a dynamic process that involves vision, creation and change (Kuratko ,2005)

### **1.6.2 Entrepreneurial Intention**

An individual's inclination to start an entrepreneurial activity sometime in the future. (Izedonm & Okafor ,2010)

### **1.6.3 Locus of Control**

The extent to which is one is able to control what happens in their life (Khan et al., 2011)

### **1.6.4 Innovativeness**

The process that transforms an invention into a profitable product (Ahmed et al., 2010).

### **1.6.5 Tolerance of Ambiguity**

The tendency to perceive situations that are ambiguous as desirable and not threatening (Ertuna and Gurel,2008)

### **1.6.7 Risk Taking Propensity**

The extent to which a person can tolerate as well as adapt to situations that are unknown or uncertain (Forlani & Mullins ,2000)

## **1.7 Organization of Report**

Discussion of this study was divided into five chapters. The first is chapter one: introduction. The remainder of this paper is organized as follows, Chapter 2: Literature Review, Chapter 3: Research Methodology, Chapter 4: Data Analysis and Findings, and Chapter 5: Discussions and Conclusions.

## **1.8 Summary**

This chapter described the introduction followed by the research problems, research questions, research objectives, scope of the study, significance of the study, definition of terms and lastly and organization of report. Generally, it provides an overview on the content of this paper.



## CHAPTER 2

### Literature Review

#### 2.1 Entrepreneurship

There are several definitions of entrepreneurship. Kuratko (2005) describes entrepreneurship as a dynamic process that involves vision, creation and change. He also said that entrepreneurship requires skills and knowledge to be transferred from an expert to someone else for it to be learnt. Izedonm & Okafor (2010) describe it as the intentional creation of an organization or its transformation with the intention of creating or adding value by organizing resources. The study explain that it entails application of passion as well as energy towards the creation and establishment of an enterprise which includes; team work, the willingness to take risks deliberately, creative skill to organize the required resources, skills in designing solid business plan, and the vision to recognize opportunities where others do not.

Gartner (1990) established that there are eight themes which are repeatedly used by various authors to describe or define entrepreneurship. These include: the entrepreneur (a description of his personal traits), value creation, innovativeness, organization creation, profit, owner-manager, growth, and uniqueness. Organization creation distinguishes entrepreneurship from other business disciplines and thus defines entrepreneurship as the process of creating new organizations. Review of literature in fact clearly brings out the association between entrepreneurship and venture (enterprise) formation (Zaidatol, 2009). This is

because most of the definitions of entrepreneurship refer to venture creation. Entrepreneurship in this study will be defined as creation of new ventures or business.

## **2.2 Entrepreneurial Traits**

According to Thomas & Mueller (2000), entrepreneur as a term refers to a combination of psychological traits, values, and attributes of a person motivated to start a business enterprise. Based on this statement, several studies have been undertaken to study differences in the personalities of entrepreneurs and non-entrepreneurs. The basic argument is that there are particular psychological traits that are necessary for entrepreneurship to take place. The main psychological traits associated with entrepreneurial intentions in literature include: locus of control, innovativeness, self-confidence, tolerance of ambiguity, need for achievement, and tendency to take risk (Koh, 1996). Chen & Lai (2010) also argue that entrepreneurs are individuals with high: internal locus of control, need for achievement, and tolerance of ambiguity, moderate risk taking tendency, and high degree of innovativeness and self-confidence.

The role of personality should not be underestimated as it influences intention or action to become an entrepreneur (Utsch & Rauch ,2000). According to Ertuna & Gurel (2008) that though entrepreneurship is multidimensional in nature, the role of individuals and their psychological profile is important as they are the ones who drive the entrepreneurial process. Several models have been proposed to guide effect of personality traits on entrepreneurship. Ertuna and Gurel (2008) point out that some individuals have a set of psychological traits which



interact with background factors to make them more likely to venture into business activities. The study explains that not all individuals have the ability to start new business ventures. They argue that some personal traits make certain people more entrepreneurial than others.

The conceptual framework for this study is therefore based on four of the psychological traits identified in literature that influence entrepreneurial (locus of control, need for achievement, tolerance of ambiguity, and innovativeness).

Krueger & Carsrud (1993) also refer to entrepreneurial activity as a planned and intentional behavior. According to them, individual attitudes with regard to starting a new business form the individual's entrepreneurial intentions. They add that these 'attitudes' depend on the individual's personality, their upbringing, beliefs, and values. It is important to note that the process of entrepreneurship (venture creation) begins with intentions before the act is performed. This study will therefore be guided by the theory of planned behavior.

### **2.3 Planned Behavior Theory**

This study will draw heavily from the theory of planned behavior theory which was put forward by Azjen (1991). According to this theory, entrepreneurial behavior stems from entrepreneurial intentions. Krueger & Carsrud (1993) adopted this theory and presented this relationship as; 'Attitudes' lead to 'Motivation' (behavioral control) which leads to 'Intentions' that bring about 'Behavior'. Entrepreneurial intentions seek to either create new ventures or create new values within existing ventures (Izedonm & Okafor 2010). The theory of planned behavior suggests that

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