

**THE RELATIONSHIP
BETWEEN PERSONALITY TRAITS,
ENTREPRENEURIAL ORIENTATION AND BUSINESS
PERFORMANCE: THE CASE OF EAST MALAYSIA**

SU SEW KUONG

PERPUSTAKAAN
UNIVERSITI MALAYSIA SABAH

**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
2013**



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SU SEW KUONG

**THESIS SUBMITTED IN FULFILLMENT FOR
THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
2013**



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JUDUL KAJIAN: THE RELATIONSHIP BETWEEN PERSONALITY TRAITS, ENTREPRENEURIAL ORIENTATION
AND BUSINESS PERFORMANCE: THE CASE OF EAST MALAYSIA

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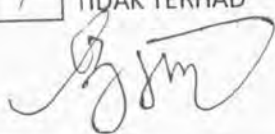
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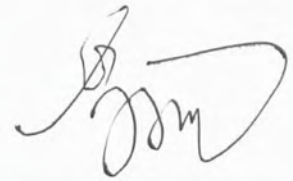
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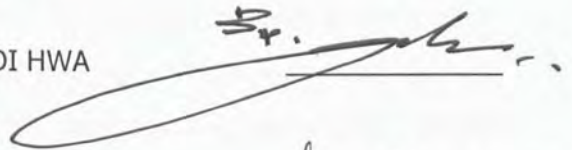
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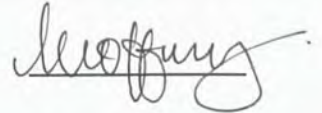
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ACKNOWLEDGMENTS

I would like to acknowledge that the pursuit of my MBA is not a solo journey. There are a number of individuals whom I owe a special debt of gratitude. First, I would like to express my sincere appreciation and gratitude to my supervisors, Associated Professor Dr Magdalene Ang Chooi Hwa and Dr Geoffrey Harvey Tanakinjal for their continuous intellectual guidance throughout the preparation of this dissertation. Otherwise this journey would not be possible without their encouragement and guidance.

Special thanks also go to my fellow post-graduate colleagues for their encouragement. Last but not the least, my deepest appreciation to my beloved husband, Benjamin, for the unrelenting support he has afforded me, and my sons, Douglas and Sanford, who have constantly encouraged and motivated me. Also, to my supportive family members, thanks for the prayers and unconditional support and love.

ABSTRACT

THE RELATIONSHIP BETWEEN PERSONALITY TRAITS, ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE: THE CASE OF EAST MALAYSIA

The main purpose of this study is to determine the relationship between personality traits, entrepreneurial orientation and business performance in East Malaysia which include Federal Territory Labuan, Sabah and Sarawak. Personality traits are the independent variables, entrepreneurial orientation acts as the moderator, and business performance is the dependent variable. The dimensions of the personality traits were adopted from John and Srivastava (1999) which consist of five dimensions namely 1) Extraversion, 2) Agreeableness, 3) Conscientiousness, 4) Emotional Stability, and 5) Openness to experience. The entrepreneurial orientation is based on the construct of risk-taking, innovativeness, and proactiveness. The business performance measurement is based on Chandler and Hanks (1993) that consist of both financial and non-financial performance. Data were collected from 305 respondents from Federal Territory Labuan, cities and towns of Sabah and Sarawak which includes Kota Kinabalu, Sandakan, Tawau, Kuching, Miri, Bintulu, Sibul, and Sarikei who are business owners that have been actively participated in the business management for at least one year.

The results provide evidence that business owner's personality trait is a validated predictor of business financial and non-financial performance. Therefore, this study provides evidence between individual personality traits and their capability in success of business performance for individuals who are interested to venture into a new business.

As for the entrepreneurial orientation, played as a role of moderator between personality traits and business performance shows a weak moderating effect on the two variables that needs further validation.

ABSTRAK

Tujuan utama kajian ini adalah untuk menentukan hubungan personaliti, prestasi perniagaan dan orientasi keusahawanan di Malaysia Timur yang termasuk Wilayah Persekutuan Labuan, Sabah dan Sarawak. Personaliti adalah pembolehubah bebas, manakala orientasi keusahawanan bertindak sebagai moderator, dan prestasi perniagaan pula yang berubah-ubah bersandar. Dimensi personaliti yang diambil daripada John dan Srivastava (1999) terdiri daripada lima dimensi iaitu 1) Ekstraversi, 2) Agreeableness, 3) Cermat, 4) Kestabilan emosi, dan 5) Keterbukaan kepada pengalaman. Sesungguhnya, orientasi keusahawanan adalah berdasarkan pembinaan pengambilan risiko, inovasi, dan proaktif. Pengukuran prestasi perniagaan adalah berdasarkan Chandler dan Hanks (1993) yang terdiri daripada prestasi kewangan dan bukan prestasi kewangan. Data yang telah dikumpulkan daripada 305 responden dari Wilayah Persekutuan Labuan, bandar-bandar di Sabah dan Sarawak termasuk Kota Kinabalu, Sandakan, Tawau, Kuching, Miri, Bintulu, Sibu, dan Sarikei bahawa peniaga tersebut telah terlibat secara aktif dalam pengurusan perniagaan sekurang-kurangnya satu tahun.

Keputusan tersebut membuktikan bahawa personaliti seseorang peniaga merupakan peramal sah bagi prestasi perniagaan kewangan dan bukan prestasi kewangan. Oleh itu, kajian ini membuktikan ciri-ciri personaliti individu dan keupayaan mereka dalam kejayaan dalam aspek perniagaan bagi individu-individu yang berminat untuk menceburi bidang perniagaan baru.

Bagi orientasi keusahawanan, peniaga dimainkan sebagai peranan moderator antara personaliti dan prestasi perniagaan untuk menunjukkan kesan yang sederhana lemah antara personaliti dan prestasi perniagaan yang perlu pengesahan selanjutnya.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Chapter one provides an overview of the study. It includes the background of the study which identifies the problem statement, defines the scope of the study, finding the significance of the study, and the final section is the definition of key terms used.

1.2 Background of the Study

The interest to own a business or become an entrepreneur has been growing worldwide. People in East Malaysia are not an exception. The growing figure of the new business units in Malaysia has shown the tendency. In 2012, there is more or less of 42,000 new businesses registered in Malaysia (Borneo Post 2013). The research of 2011 Global Entrepreneurship Monitor (GEM) by the World Bank indicated high percentage (74%) of the Malaysian respondents believe that successful business owners own a high status in society, and starting a business is a good career choice.

Based on the Census 2011 record of small and medium enterprises (SME) in Malaysia, there is a total of 645,136 SMEs owner operating their businesses in Malaysia which representing 97.3% of total business establishments. 90% of the establishments were in the Services sector, 5.9% in the Manufacturing sector and 3.0% in the Construction sector. The remaining 1.1% was in the Agriculture sector, and Mining & Quarrying (Department of Statistics Malaysia, 2012). SMEs involved activities ranging from petty traders, grocery store operators, contract manufacturers supplying parts and components to multinational corporations, professional services such as software and medical firm selling their services to overseas market. SMEs also operate in different marker environments such as

urban, rural, online, physical, domestic and regional (SMEs Malaysia Masterplan 2012 to 2020). In terms of size of the business, out of the total SME businesss in Malaysia, 77% were micro-sized enterprises, followed by small enterprises, 20.0% and medium-sized enterprises, 3.0%. Fifty percent of the total SMEs in Malaysia are concentrated in Selangor, WP Kuala Lumpur, Johor and Perak. SMEs in WP Labuan, Sabah and Sarawak represented only 13.4%. SMEs contribution to GDP is increasing, it has increased from 29.4% in 2005 to 32.5% in 2011 (Department of Statistics Malaysia, 2012). SMEs also contributed 59% of the total employment and 19% of exports in Malaysia (SME Masterpan Malaysia 2012 to 2020).

The success of the business is crucial to an entrepreneur or the business owner. Thus, it is critical to determine factors that lead to the success of a business. Many researchers emphasized that personality trait is one of the keys which attributes to the success of a business owner on their business performance. Every single dimension of the personality traits could have differential relationships with business performance (Zhao and Seibert, 2006). Variety of personality's traits that were affecting the success of a business owner, and certain personality traits also sound different from other people (Yaghoob and Shamsodin, 2011). Personality characteristics are important determinants of business owner performance (Calliedo and Kritikos, 2011).

1.3 Problem Statement

The failure rate of SMEs in Malaysia remains considerable high. In the study of Ahmad (2007) reported that the failure rate of Malaysia SMEs is approximately 60% which is almost three times higher than Australia (23%). In general, only 7% of the new registered business survived beyond 42 months period in 2012 (The Star, 2013). The failure rate among SMEs was most pronounced in microenterprises (SME Malaysia Masterplan 2012 to 2020). As discussed earlier, the business figure in East Malaysia represented a lower percentage in Malaysia's SME industry as compared to most of the states in West Malaysia. In addition, East Malaysia and Sarawak enterprises are also far behind in term of growth as compared to the

enterprises in other states in the West Malaysia because of the low technology and lack of market information (Press, 2011).

The productivity of SMEs Malaysia was relatively low as compared to large firm in Malaysia and higher-income countries. For examples, our neighboring country Singapore SMEs and United States SMEs are four times and seven times more productive than Malaysia SMEs respectively (Department of Statistics Malaysia, 2011). The microenterprises in the services sector are particularly low in productivity as compared to others industry and sizes of the business unit. No doubt that the external factor such as lack of skilled worker is influential to SME success, the internal factor such as business owner's innovativeness, cultures background and personal characteristic are also the major factors contributed to the low productivity (SME Corp. Malaysia). There is a need to more closely examine the internal factors that may contribute to a business performance. Entrepreneur individual factors are more important than environmental factors which lead to the success of a business (Chong, 2012). The study of the Global Entrepreneurship Monitor (2011) of Malaysia reported that less than half of those interested in starting a business and believed that business career is a good choice that have the capability to see the good opportunity of business.

Several studies (for example, Sidek & Zainol, 2011) have been analyzed on business owner performance, yet there is still limited literature on the determinants of entrepreneurial success in business (Zainol and Ayudai, 2011). In addition, those studies also indicated that personality traits are linked to effectiveness and success of the business owner (Yaghoob and Shamsodin, 2011). However, most of those studies are primary based on western countries' large firm. Whether those findings are applicable in smaller firm, other countries, and culture are remains ambiguous. For instance, Zainol and Ayadurai (2011) experienced that personality traits does not have any significant relationship with entrepreneurial orientation, and entrepreneurial orientation also do not mediate the relationship between personality traits and business performance, there is only significant positive relationship between entrepreneurial orientation and business performance in the context of Malaysia. The finding was not consistent with previous research.

People who are interested to start up a business should study their personality with a view of knowing which factors or variables are dominant in their success (Olakitan and Ayobami, 2011). Peterson and Smith (2003) recommended studying the impact of personality on smaller firms' performance in order to test the validity of the previous findings, and also exploring possible moderators to the personality traits and firm's performance relationship (Zhao and Seibert, 2006).

Therefore, the purpose of this study is to examine and provide a theoretical basis and empirical experience of the relationship between personality traits, entrepreneurial orientation and business performance in the context of East of Malaysia.

1.4 Research Objectives

The specific objectives of this study are as follows:

1. To examine the effect of personality traits on business financial performance in the context of East Malaysia.
2. To examine the effect of personality traits on the business non-financial performance in the context of East Malaysia.
3. To examine the role of entrepreneurial orientation as a moderator in the relationship between personality traits and business financial performance.
4. To examine the role of entrepreneurial orientation as a moderator in the relationship between personality traits and business non-financial performance.

1.5 Research Questions

The research questions in this study corresponding with the research objectives are as follows:

1. Does a personality trait significantly influence business financial performance?
2. Does a personality trait significantly influence business non-financial performance?

3. Does entrepreneurial orientation moderate the relationship between personality traits and business financial performance?
4. Does entrepreneurial orientation moderate the relationship between personality traits and business non-financial performance?

1.6 Significance of the Study

The findings of the study should benefit both academics and practitioners to understand the relationships between personality traits and business performances. For instance, if someone wishes to venture into a new business or looking for business partner in East Malaysia one can use these findings as a reference to assess the potential personality traits in business arena. In addition, this study will also contribute to the business performance of the business owner with different personality traits in the Big-five model which includes Extraversion, Agreeableness, Conscientiousness, Emotionally-Stability and Openness to experience. The business performance literature will provide empirical evidence to support the relationships between Big-Five personality traits and the business performance with role of entrepreneurial orientation as the moderator.

1.7 Scope of the Study

Geographically, this study is focused on East Malaysia business owners which include the states of Federal Territory of Labuan, Sabah, and Sarawak. As all of these states are dominated with micro and small firm, thus, the samples are mostly from micro and small firms. It is a cross-sectional and quantitative research through questionnaires from respondents. The types of business owned by the respondents are mostly from services, retails/sales, food and beverage, and educational services.

1.8 Definition of Key Terms

Definition of key terms used in the study is described as follows:

Personality Traits are individual-difference variables. They help us to understand an individual and how they should be operated. It is a necessity to describe the personality itself, the dynamic psychological organization that coordinates experience and action of the individual (John and Srivastava, 1999).

Big-Five Personality Traits is constructed in five dimensions namely extraversion, agreeableness, conscientiousness, emotional stability and openness to experience (John and Srivastava, 1999). The definition of each of the dimensions is described as follow:

- **Extraversion** implies an energetic approach to the social and material world. Extraversion individuals are assertive, sociable, talkative, energetic, and talkative. They are outgoing, enjoy social life such as talking with people (John and Srivastava, 1999).
- **Agreeableness** individuals are tender mindedness, helpful, unselfish, cooperative, considerate, trust, kind, has a forgiving nature, and willing to accommodate others' wishes. They are contrast to prosocial and communal orientation (John and Srivastava, 1999).
- **Conscientiousness** means someone who is socially prescribed impulse control that act as task- and goal orientated behavior. They tend to prioritizing tasks, do work efficiently, think and plan to before acting, well organized, careful, persistent, and responsible (John and Srivastava, 1999).
- **Emotional stability** individuals having the ability to be calm in tense situation, do not get nervous easily, emotionally stable, not easy easily upset, relaxed, feeling secure, and do not worries a lot. They are contrast to neuroticism who always feel anxious, nervous, sad, tense, and with negative emotionality (John and Srivastava, 1999).
- **Openness to experience** individuals are original, inventive, ingenious, deep thicker, imaginative, always comes out with new ideas, and curious about many things. They have a tendency to seek stimulation and explore new environments actively (John and Srivastava, 1999).

Entrepreneurial Orientation is the entrepreneurial strategy-making process that the key decision makers of the firm to enact their firm's organizational purpose, sustain its vision, and create competitive advantages (Bolton and Lane, 2012). The core constructs of the entrepreneurial orientation are risk-taking, innovativeness and proactiveness. The definitions of each are described as follow:

- **Risk-Taking** is a firm risk taking behavior such as borrowing heavily, making large resource commitments to ventures into uncertain environments within calculated risk, and interest of obtaining high returns by seizing opportunities in the marketplace (Bolton and Lane, 2012).
- **Innovativeness** is a firm's tendency to engage in and support new ideas, novelty, experimentations, and creative processes that could produce new products or services, or technical process (Bolton and Lane, 2012).
- **Proactiveness** is how the firm relates to market opportunities in process of new entry by seizing initiative and acting opportunistically that could influence trends, and perhaps, even create demand (Bolton and Lane, 2012).

Business Performance is the perspective of the organizational effectiveness. The conceptualization of the business performance would include the indicators of financial and nonfinancial performance (Chandler and Hanks, 1993). Each of the performance is described as follow:

- **Financial Performance** is business performance on monetary aspects. It includes business performance on profitability, sales turnover, sales growth, return on investment (ROI), and market share (Chandler & Hanks, 1993).
- **Non Financial Performance** refers to the business performance on non monetary aspects which include business owner's self-satisfaction and career progress, customer satisfaction, customer retention, employee satisfaction, relationship with suppliers, business image, workplace industrial relations, and the business owner's work and life balance (Chandler & Hanks, 1993).

Business referred to the small and medium enterprises in context of Malaysia. In Malaysia, the definitions of the small and medium enterprises are based on the annual sales turnover or number of full time employees. In this study, the researcher defined the business by the number of the full time employees. Micro business is a firm that employs less than 5 full time employees, small business is a firm that employs between 5 and 19 full time employees, and medium business is a firm employs between 20 to 50 full time employees. For manufacturing sector, a firm employs between 5 and 50 full time employees is a small enterprise, and employs between 51 and 150 is a medium enterprise (www.miti.gov.com, 2011).

Business Owner is the small and medium business owners in East Malaysia who are actively participating in the management of the business.

1.9 Organization of Thesis

This dissertation is compiled and organized in a five chapter format. Chapter 1 of this study provides the background of the study, analyze problem statements, locating the research questions and objectives, defining the scope of the study and a definition of the key terms. Chapter 2 includes the literature review on personality traits, firm performance and entrepreneur orientation. Chapter 3 provides the research methodology together with the theoretical frame work, research hypothesis, population and sampling, research instruments data collection procedures and data analysis procedures which are to be used. Chapter 4 describes the data analysis and finding the results of the correlation analysis, regression analysis and hypothesis testing. Chapter 5 summarizes the study and discusses the findings.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The content of this chapter provides an in-depth review of the literature relevant to the present research objectives. The first section begins with a review of the literature related to personality traits, and the Big Five model personality traits which include extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience. The next section is a review of literature pertinent to entrepreneurial orientation (EO) that includes risk taking, innovativeness, and proactiveness. The third section vividly reviews the concept of business performance which covers financial and non-financial performance.

2.2 Overview of Personality Traits

The idea of personality traits can be as old as human language itself to describe individual good or bad traits of characters (Mathews and Whiteman, 2003). Hundreds of personality traits have been identified by the psychologists over the last one hundred years to describe a great variety of feelings and behaviours (Ivancevich, Konopaske and Mattesson, 2011). It is generally believed that personality traits directly influence a person's behaviour (Mathews, Peary and Whiteman, 2003). For instance, if a person spontaneously breaks into tear, we might understand that the behavior is saying that he or she has feeling of insecure disposition. Personality appears to be stable among working-age adults, and the changes are small and do not vary substantially across age groups (Soldz and Vaillant, 1999). However, individual personality change can be related to the adverse events such as career, health or family events that individual experienced in the life course (Clark and Schurer, 2011). For example, if a person failed with a huge venture in business it may changes his or her personality to depression, lack of confident and hostility.



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