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# I. SUSTAINABLE ENTREPRENEURSHIP



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## SUSTAINABLE ENTREPRENEURSHIP AND KNOWLEDGE BASED DEVELOPMENT

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### ABSTRACT

**Objectives:** The link between entrepreneurship, social entrepreneurship and sustainable entrepreneurship and the symbiotic relationship between innovation and entrepreneurship have been extensively studied in the literature of entrepreneurship. This Paper explores the conceptual linkage between sustainable entrepreneurship and knowledge based development (KBD), an emerging discipline which focuses upon knowledge-based processes, including innovation related processes, to bring about sustainable development. The PURA (Providing Urban Amenities in Rural Areas) model of development in the Indian context, which hinges upon entrepreneurship as the building block for sustainable development of the rural areas of the country, has been elaborated and its relationship with the KBD frameworks proposed by eminent researchers and institutions has been examined. The objective of the Paper will be to explore whether and to what extent entrepreneurship in general and sustainable entrepreneurship in particular is considered as a propeller of KBD in the theoretical KBD literature as well as in realization of PURA model in the Indian context, where it has been successfully adopted.

**Theoretical Background/Previous Practice:** The pre-eminence of knowledge as a key resource for economic and social development has been widely recognized. KBD as a discipline has emerged on the premise that knowledge-based processes are pre-requisite to sustainable development. Two distinct KBD perspectives, namely, 'transitional' and 'radical' have been cited. The transitional view considers knowledge as a resource suited to leverage economic growth and is focused on growth of the monetary base resource. The radical view considers knowledge as an instrument for balanced, equitable and sustainable development. A KBD framework proposed by the Australian Bureau of Statistics incorporates a dimension related to innovation and entrepreneurship; The Happy Planet Index (HPI) of New Economic Foundation incorporate dimensions of ecological footprint and life satisfaction; and World Bank Institute's Knowledge Assessment Methodology (KAM) incorporates innovation as a key dimension. However, most KBD frameworks are silent on the role of entrepreneurship. Interestingly, PURA, proposed as a model of sustainable development in rural India leverages entrepreneurship for strengthening physical, electronic and knowledge connectivity, leading to economic growth with sustainability. However, despite being a model of knowledge based development, PURA doesn't find mention in the KBD literature. Also, the concept of sustainable entrepreneurship (or even eco-entrepreneurship) is not central to PURA, though it emphasizes role for various social actors in providing entrepreneurial initiative.

**Approach/Methods:** The paper will be based on literature survey, supplemented with insights gained from a successful PURA model in India.



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**Results/Insights:** The Paper is expected to provide insights on the existing and missing links between entrepreneurship, social entrepreneurship, sustainable entrepreneurship, innovation, knowledge and knowledge-based development, both from theoretical and practical perspectives.

**Implications:** The Paper can provide useful inputs to policy-makers on how deliberate strategic incorporation of entrepreneurship (and sustainable entrepreneurship in particular) can transform existing KBD frameworks into actionable instruments for sustainable development.

**Keywords:** Sustainable Development, Sustainable Entrepreneurship, Social Entrepreneurship, Knowledge-Based Development, Knowledge Processes, Innovation

## 1. Introduction

In this Paper, we first look at the building blocks of entrepreneurship and examine its inter-relationship with innovation and creation of new enterprises. Innovation itself is strongly linked with knowledge, which along with intellectual capital is regarded as the propeller of modern knowledge-based economy. We then look at the evolution of the concepts of knowledge management, knowledge economy and knowledge-based development and examine whether and to what extent innovation and entrepreneurship are regarded as vital inputs to the challenges of knowledge-based development. The inter-linkage among the concepts related to entrepreneurship, social entrepreneurship and sustainable entrepreneurship have been then examined, and the focus if any on sustainability and sustainable development in the emerging discipline of KBD has been looked at. Thus, the Paper tries to build a bridge between two parallel developments in the management literature, one related to the evolution of sustainable entrepreneurship (starting with entrepreneurship) and the other with the build-up of sustainability as a key value of KBD. Whereas the above discussion is essentially based on literature survey related to the two parallel streams, an empirical dimension is provided by examining the model of PURA (Provision of Urban Amenities in Rural Area) in the Indian context, which can be considered as an indigenous model of KBD. The role of entrepreneurship in general and sustainable entrepreneurship in particular in successful realization of PURA model is then examined both from a theoretical and practical perspective.

## 2. Objectives

As stated earlier, the objective of the Paper is to explore whether and to what extent entrepreneurship in general and sustainable entrepreneurship in particular is considered as a



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propeller of KBD in the theoretical KBD literature as well as in realization of PURA model in the Indian context, where it has been successfully adopted.

### 3. Method

The Paper is essentially based on literature review and conceptual analysis thereof. The literature on entrepreneurship, innovation, knowledge and knowledge-based development cited is not claimed to be comprehensive. Attempt has however been made to bring out representative streams of existing literature on these terms to identify their key aspects with a view to establish conceptual linkages amongst them. The Paper does not aim at empirical testing; however, observations on the realization of PURA concept have been provided based on field work.

### 4. Findings

Bulk of the Paper presents the findings, which have been categorized below into various headings and sub-headings.

#### **The Building Blocks of Entrepreneurship**

##### Entrepreneurs and Entrepreneurship

Entrepreneurship as a subject of research has been widely studied in the literature of management and economics. Studies on entrepreneurship dwell upon what entrepreneurship is and what the entrepreneurs accomplish. Entrepreneurship is defined by the study of how, by whom and with what consequences opportunities to produce future goods and services are discovered, evaluated and exploited (Shane and Venkataraman, 2000). As agents of change, entrepreneurial firms provide an essential source of new ideas and experimentation that otherwise would remain untapped in the economy (Acs & Audretsch, 2005). Anyone capable of generating results in any area of human activity may be termed as an entrepreneur; and people having the power to make things happen are entrepreneurs (O. Motomura, “Sustainable Entrepreneurship” at [http://www.paricenter.com/library/papers/Sustainable\\_repreneurship.pdf](http://www.paricenter.com/library/papers/Sustainable_repreneurship.pdf))

The Joint Economic Committee Staff Report (2000) highlights several key contributions of entrepreneurs to an economy. These include: (a) creating new industries by experimenting in market niches that were overlooked by established firms; (b) tackling uncertainty by pursuing



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competing strategies and responding flexibly to changing conditions; (c) actually generating competition to established firms; (d) acting as the economy's guinea pigs; (e) turning inventions into innovations; and (f) creating new horizons. Entrepreneurs take a concept and convert it into a reality (Zilberman, 2005). An entrepreneur is the force that rearranges the market into new and more efficient form (Drucker, 1985).

### Entrepreneurship and Innovation

Most studies on entrepreneurship underscore its strong relationship with Innovation. Innovation is seen as the core action and a specific instrument of entrepreneurship (Drucker, 1985). Entrepreneurship and innovation can be considered as virtually synonymous (Acs & Audretsch, 2005). Many industries characterized by high rate of innovation also have high rates of new venture creation (Cooper, 2005). Entrepreneurship gives birth to new commodities, techniques and goods, booting human progress forward and rendering the old obsolete, leading to the extinction of whole branches of industry and creation of new ones (Mellor, 2009). Entrepreneurship makes it possible to make new business where no previous industry or business existed. Entrepreneurs also make it possible to recombine existing business processes to form new value chains (Porter, 1990).

The task of an entrepreneur, according to Schumpeter, is to indulge in creative destruction. The entrepreneur searches for change, responds to it and exploits it as an opportunity. Innovation is a specific instrument of entrepreneurship, and an entrepreneur indulges in systematic knowledge-based innovation, which can be viewed as a purposeful and organized search for changes and systematic analysis of opportunities offered by such changes (Drucker, 1985). According to Kirzner (quoted in Kopplan & Minniti, 2005), entrepreneurs innovate and entrepreneurship encompasses alertness to new opportunities and seizing such opportunities by taking innovative action. Entrepreneurs, including start-up companies and venture capitalists are key stakeholders in the innovation processes (Zilbermann, 2005). Thus, innovation is the core action of an entrepreneur and his/her source of value addition to the society.

There has been a debate in the literature of entrepreneurship on the relative effectiveness of established firms versus entrepreneurs on creating innovations. A classical view, attributed to eminent past economists such as Joseph Schumpeter (1942), John Kenneth Galbraith (1962) and Alfred Chandler (1977) has been that entrepreneurs have a competitive disadvantage for undertaking innovations since they being too small would fade away as the victim of their own inefficiencies. However, recent empirical evidence suggests that new ventures and small entrepreneurial firms play a key role in generating innovations, at least in certain industry and spatial contexts. Entrepreneurship plays a crucial role in innovation by providing a mechanism for knowledge to spill over from the organization producing that knowledge, to the (new)



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organization commercializing it (Acs and Audretsch, 2005). Entrepreneurs are in a much stronger position to reply to external threats, changes in the market and similar challenges. They may be in a stronger position to innovate (Mellor, 2009)

### Entrepreneurship and Enterprise Creation

Entrepreneurship classically means (a) finding new products or combinations in order to satisfy needs (to innovate); (b) organizing resources effectively (to create organizations); and (c) creating wealth by adding value (to generate employment). Classically, economics recognizes three factors in production, namely, raw materials, labour & capital. Entrepreneurship is referred to as the fourth factor which organizes the other three factors; he/she is a person who uses innovative methods to restructure a value chain so as to reap entrepreneurial profit. Enterprise creation is a natural outcome of entrepreneurial activity. An enterprise can be defined as activity that raises the capacity for invention, innovation, commercialization, technology acquisition and business creation. The entrepreneur is an active change agent, who consciously uses innovation and creativity as tools to achieve enterprise. He/ she implements new combinations of the means of production, including creating new products, altering the quality of an existing product, developing new processes of production, opening new markets, capturing new sources of supply and developing new forms of organization or industry...New and entrepreneurial companies are formed on the basis of the entrepreneur having an innovative, novel or creative idea (Mellor, 2009).

The triad of entrepreneurs, entrepreneurship and enterprise creation brought out in this section emerges as the focal point of Figure 3 referred to in a subsequent section.

### **Social and Sustainable Entrepreneurship**

#### Sustainability and Sustainable Development

Sustainability' is a way of living that is capable of guaranteeing a continuity of life for all. It is a search for the common good; a way of living in its totality that makes possible the best conditions of life for everyone (without exception or any type of exclusion) at all times. It means living a balanced life today; a healthy way of living in which no one lives at the expense of anyone else; and a way of life lived by the whole society that considers the needs of future generations (See Motomura, [www.amana-key.com.br](http://www.amana-key.com.br)).

Kalam & Singh (2011) view sustainability along six dimensions, namely, economic, technological, social, environmental, value and learning sustainability. Economic Sustainability



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implies that the financial model of the development tool is sound and robust, and that development tools are tuned to the core competency of the region. Technological Sustainability implies that technology will be the driving force behind the development tool employed. Social sustainability reflects the belief that people are not necessarily customers, and that an enterprise should be a partner in the lives of the people, should work closely with the local community, and facilitate building capacity and living standards. Environmental sustainability, the relatively well known concept of sustainability encompasses in itself issues of reducing emissions; reducing water and soil pollution; protecting biodiversity; preserving natural resources; waste recycling; awareness of ecology in the community; and accountability on environment. Value sustainability implies that development should be accompanied by the creation of a value-based society, thereby helping reduce social conflict. Lastly, sustainability related to learning and adaptability refers to the availability of infrastructure, opportunity and incentives for continuous learning from each other, facilitating innovations.

Sustainable development has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. It is the process in which “the exploitation of natural resources, the allocation of investments, and the process of technological development and organizational change are in harmony with each other for both current and future generations” (Both definitions from World Commission on Environment and Development, WCED, 1987, quoted by Gerlach, 2003).

### Sustainable Entrepreneurship

A narrow interpretation of sustainable entrepreneurship is to equate this to creation and marketing of environmental friendly products and services by entrepreneurs, thereby adding value. Weber (2007) views this as providing environmental solutions or ecological innovations and products either by a start-up company or an established business. This emphasizes joint economic and ecological value creation, and can therefore be defined as eco-entrepreneurship or eco-preneurship. Essentially, the terms eco-preneurship, eco-entrepreneurship or environmental entrepreneurship are used synonymously meaning ‘innovative behaviour of single actors or organisations operating in the private business sector which see environmental aspects as a core objective and competitive advantage’. Ecopreneurs identify environmental innovations and their market opportunity and successfully implement these innovations resulting in new products or services (Gerlach, 2003). Ecopreneurs identify environmental innovations and their market



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opportunity and successfully implement these innovations resulting in new products or services... All eco-preneurs contribute to the move towards a sustainable society (Mellor, 2009).

Several conceptually broader definitions of sustainable entrepreneurship bring in certain additional dimensions. For example,

WBSCD (World Business Council for Sustainable Development) defines sustainable entrepreneurship as the “continuing commitment of business to behave in an ethical way and contribute toward economic development while improving the quality of life of the workforce, their families, and the local and global community, as well as future generations”. From a perspective of sustainable entrepreneurship, entrepreneurs have a responsibility to their investors and shareholders as well as to nature, society, and future generations.

While designing the outline of a course on Sustainability Entrepreneurship, Basu, Osland and Solt of San Jose State University qualify sustainable entrepreneurship as entrepreneurship which emphasizes additional goals of promoting sustainable living and environmental improvement. An emphasis on sustainability within entrepreneurship involves searching for opportunities for new products or services or new technologies or production processes that alleviate social or environmental conditions, make more efficient use of energy and natural resources, and harness new resources that are more abundant, cheaper to produce, and less harmful to society (See “A New Course on Sustainability Entrepreneurship” at <http://nciia.org/conf08/assets/pub/basu1.pdf>)

According to Gerlach, in a narrow sense, sustainable entrepreneurship can be defined as innovative behaviour of single actors or organisations operating in the private business sector that are seeing environmental or social issues as a core objective and competitive advantage. However, in a broader sense, it can be viewed as innovative behaviour of actors in the context of sustainability, including actors from governmental and non-governmental, profit and non-profit organisations (Gerlach, 2003).

Motomura defines sustainable entrepreneurship as ‘making things happen in a way that takes into consideration the short, medium and long-term’. It can be contrasted to “selfish entrepreneurship”, in which people seek advantages only for themselves, as well as to “unconscious entrepreneurship”, in which a non-sustainable way of life is produced that generates imbalances of all kinds. (See [www.amana-key.com.br](http://www.amana-key.com.br))

Sustainable entrepreneurship is typically associated with the triple bottom line comprising three Ps, namely, people, planet, and profit. ‘People’ refers to an enterprise’s treatment of its workforce; ‘planet’ refers to the impact of the company on natural resources and the environment; and ‘profit’ relates not just to the financial returns of the enterprise, but also to the allocation of the financial returns between investments and distribution of the gains.



## Understanding Social Entrepreneurship

Simha and Carey quote various streams of literature to provide different perspectives on social entrepreneurship and conclude that social entrepreneurship exists in order to create social value rather than personal wealth (Simha, & Carey, 2012). One typical stream, represented by Reis suggests that social entrepreneurship implies applying solid business practices to the operation of non-profit organizations (Reis, 1999). Another stream represented by Austin et al defines social entrepreneurship as innovative, social value creating activity that can occur within or across the non-profit, business or Govt. sectors (Austin et al, 2006). Zahra et al characterize social entrepreneurship as encompassing the activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner (Zahra, 2009). Mair & Mart describe social entrepreneurship as ‘socially responsible act of commercial businesses engaged in cross-sector partnerships’ (Mair & Mart, 2006).

The conclusion that social entrepreneurship exists in order to create social value rather than personal wealth is inescapable if the sense of all these shades of meaning/ interpretation of what characterizes social entrepreneurship are viewed together (Simha & Carey, 2012).

## Social Entrepreneurship, differentiated from Strategic Entrepreneurship

Basu et al make a distinction between social and sustainable entrepreneurship by observing that sustainable entrepreneurship emphasizes the economic efficiency and effectiveness aspects of economic entrepreneurship, but includes inter-generational economic equity as an added consideration. Like social entrepreneurship, sustainable entrepreneurship considers issues of social responsibility and socio-effectiveness but also brings in considerations for the future. Sustainable entrepreneurship is consistent with entrepreneurs striving simultaneously for profit and for improving local and global environmental and social conditions; and it takes into account both social aspects and environmental effects while also considering the long-term economic and business consequences of new venture opportunities. (See <http://nciia.org/conf08/assets/pub/basu1.pdf>). Figure 1 provides a schematic representation of this view.

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Weber positions social and sustainable entrepreneurship as representing two quadrants in a matrix with social impact as one dimension and business impact as the second dimension. In this matrix, called, societal strategy matrix, social entrepreneurship comes on the top of philanthropic strategy – high on social impact, but low on business impact. However, sustainable entrepreneurship is high on both these dimensions. Further, social entrepreneurship strives to create highest possible societal value while ensuring the highest possible business impact. It explicitly focuses on innovative social value creation, which distinguishes it from sustainable entrepreneurship – the later aiming at an integrated and balanced value creation. Sustainable entrepreneurship includes the social dimension also, in addition to the economic and ecological dimension (Weber, 2007). Figure 2 provides a schematic representation of this view.

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Insert Figure 2 here

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### **Role of Knowledge in Entrepreneurship**

The fact that knowledge is deeply associated with entrepreneurship can't be over-emphasized. Alvarez (2005) refers to entrepreneurial knowledge as the ability to take conceptual, abstract information of where and how to obtain undervalued resources, explicit and tacit, and how to deploy and exploit these resources. He also views knowledge as some kind of an idiosyncratic resource that is capable of generating and sustaining a competitive advantage. The need for protecting entrepreneurial knowledge is emphasized on the grounds that property rights to entrepreneurial knowledge (being more in the nature of tacit knowledge) are weak. By protecting this knowledge, the rents to it can be rightfully appropriated by the creator of knowledge, and thereby the innovative forces of the entrepreneur can be better protected.

Kopplan and Minniti (2005) categorize knowledge relevant to the entrepreneur in two types. The first type is a theoretical/ scientific/ conceptual knowledge common to all stakeholders and the second is a dispersed knowledge of what to produce and how to produce it, which is scattered across different economic actors. It is observed that each actor possesses only a partial knowledge about a few things; however, the market acts as an integrated whole.



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Saraswathy et al (2005) make a similar point, arguing that the first kind of knowledge is scientific knowledge, which is stable and can be best known by suitably chosen experts in their respective fields, whereas the second type of knowledge is a dispersed knowledge of particular time and place, the importance of which only an individual can judge. This dispersion of knowledge is the root explanation for presence of uncertainty, giving rise to entrepreneurial opportunities, as well as the root explanation for the nexus between an entrepreneur and the opportunity to discover, create and exploit new markets.

Earlier, Drucker (1985) propounded the concept of knowledge-based innovation as the key role of an entrepreneur, and the “super-star” of entrepreneurship. He identifies several characteristics of knowledge-based innovation. Firstly, it has the longest lead time span between emergence of new knowledge and the same becoming applicable to technology and subsequently getting converted into products, processes or services in the market place. Secondly, knowledge-based innovations are never based on one factor alone; they are based on the convergence of several different kinds of knowledge, not all of them scientific or technological. Knowledge-based innovation requires (a) a careful analysis of all the necessary factors to identify the missing factors if any; (b) a clear focus on its strategic positioning; and (c) need to learn and practice entrepreneurial management.

The JEE Staff Report (2000) while examining the role played by entrepreneurship in the process of economic growth and development observes that the market economy is a learning machine with the creative actions of entrepreneurs providing a crucial source of new and valuable knowledge. Entrepreneurship provides a mechanism for knowledge to spill over from the organization producing that knowledge, to the (new) organization commercializing it. (Acs and Audretsch, 2005).

It can be seen that the literature survey presented in the above sections highlights a close linkage between knowledge, innovation and entrepreneurship. Figure 3 provides a schematic representation of these linkages, incorporating also the triad between entrepreneurship, entrepreneurs and enterprise creation.

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Insert Figure 3 here

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Explanation of the Linkages



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- a) There exists a triad of entrepreneurs, entrepreneurship and enterprise creation. Entrepreneurs on the strength of their entrepreneurial capabilities have the wherewithal to create a new enterprise (and in several cases, new industries as well).
- b) Entrepreneurship triggered by the acts of entrepreneurs thrives upon their being alert to identification of new opportunities, appreciation of risks and ability to cope with uncertainties. The innovations conceptualized and put into practice by the entrepreneurs have the effect of capturing the existing markets (achieving equilibrium) or establishing new products and markets (creating disequilibrium). Through these mechanisms, entrepreneurship creates value for business and society.
- c) Beside other factors of production (land, labour and capital), knowledge is a key input factor for the new enterprise created through entrepreneurship. This comprises of (a) technical knowledge obtained through R&D; and (b) knowledge of the market and environment. An entrepreneur, equipped with both these types of knowledge, brings in the innovation which has the effects stated above.
- d) While these dynamics form the inner circle of entrepreneurial eco-system, the output in the form of new value creation transcends into the macro-economy to facilitate economic growth and development of a nation/ region. The value created through entrepreneurship may be for (i) the customers of the entrepreneurial firm; (ii) for society at large; and/or (iii) for the entrepreneur in his/her personal capacity.
- e) Sustainable entrepreneurship provides a larger framework of value creation for the society which incorporates the above three values and also builds in the futuristic dimension of sustainability.

## **Linkage between Entrepreneurship and Knowledge Based Development (KBD)**

### Evolution of KBD

Knowledge as a key resource available to human beings, organizations and societies in order to secure power and competitive advantage has been widely discussed. Knowledge has also been viewed as forming an inseparable component of the triad of the “competence” of an individual, the other components being skills and attitudes. The Information Technology perspective of KM defines knowledge as ‘actionable information’ and positions knowledge towards the upper end of the DIKW (Data; Information; Knowledge; Wisdom) hierarchy; and more importantly, it highlights the leverage of IT in acquiring, storing and sharing knowledge across geographic boundaries (Batra, 2007).

To begin with, KM was essentially seen as an enterprise-focused discipline. IT-enabled KM systems comprising knowledge portals and focusing on rapid distribution of explicit knowledge across organizational boundaries became a very popular trend from late nineties onwards. However, it was soon realized by the development agencies that the fundamental concepts of knowledge and KM can be integrated in their development agenda and programmes to support less developed countries. The term “Knowledge Economy” (KE), embodying the pivotal role of



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knowledge in steering the economies of the world towards accelerated growth, became very popular in the late nineties. By the beginning of the new millennium, the term Knowledge-based Development (KBD) was coined, bringing knowledge at the centre of the emerging theories of growth.

The evolution of Knowledge Based Development (KBD) as an emerging discipline reflects the widening horizons of Knowledge Management (KM) beyond its original enterprise-focused scope. Both KM and KBD are anchored in the fundamental characteristics of knowledge as a resource distinct from physical resources. In the corporate context, KM provides concepts and approaches which enable enterprises to gain competitive advantage. In a social context, KBD provides frameworks which enable other forms of human aggregations to gain impetus for economic development.

One stream of literature observes that the world is increasingly becoming a knowledge economy or a knowledge-based economy. The OECD Report (OECD, 1996), for example, defines a knowledge economy as one that is “based on production, distribution and use of knowledge” and “that utilizes knowledge as a key engine of economic growth”. The World Bank Institute defines knowledge economy as one that creates, disseminates and uses knowledge to enhance the growth and development of an economy (Chen and Dahlman, 2005). A knowledge economy is one in which knowledge is the key resource, and in which the generation and the exploitation of knowledge has come to play a predominant part in the creation of wealth (Houghton & Sheehan, 2000). Thus, a knowledge economy makes effective use of all types of knowledge in all manners of economic activity.

Another stream of literature highlights the role of entrepreneurs and observes that the new economy can also be called entrepreneurial economy, since entrepreneurs are the main force behind revolutionary changes in the high-tech industry. The entrepreneurs start the companies which create new technologies reshaping manufacturing, finance, medicine, and other sectors. They harness new technologies to improve performance across the economy.

The KBD movement reflects a shift in the focus of application of knowledge to macro-economic areas such as education, urban planning, governance and healthcare. KBD can be viewed as a societal level KM (Laszlo & Laszlo, 2002). From a KBD perspective, knowledge is designed to support three value domains namely economy, society, and natural environment. All three value domains of sustainable development are pursued together through deployment of three categories of knowledge assets, namely, human capital through education, structural capital through innovation, and stakeholder capital through building of networks.

Two different perspectives of KBD, namely, ‘transactional’ and ‘radical’ have been proposed. The transactional view considers knowledge as a resource or a capability suited to leverage economic growth in a way that may eventually bring social prosperity. This view is instrumental,



incremental and focused on growth of the monetary base resource. The radical view of KBD considers knowledge as an instrument for balanced, equitable and sustainable development (Carrillo, 2006).

Laszlo and Laszlo (2002) introduce the concept of evolutionary development for understanding development in a systemic and inter-connected way. This framework presents a larger ‘container’ within which knowledge strategies could make a strategic difference in creation of value, not only financial, but also human, social and eco-systemic. The authors highlight the two well-known complimentary purposes of KBD, namely, economic prosperity and human development, as means to bringing about more creativity, innovation and entrepreneurship. However, they argue that these two purposes need to be contextualized in a larger framework of the sustainable well-being of the planetary community. They visualize a third purpose of KBD, which is to contribute to a socially and environmentally sustainable society. This third purpose provides KBD with both context and directionality. Laszlo and Laszlo also argue that the well-known triple bottom line approach viewing financially responsible, socially responsible and environmentally responsible strategies as separate, needs to be reconsidered as blended or integrated bottom line.

There exists a symbiotic relationship between the theoretical frameworks of KBD and the complexity of its measurement. The measurement challenges flow from the inherent difficulties of measuring non-monetary value. As the KBD under focus progresses towards higher levels of scope and complexity, the measurement challenges tend to increase (Carrillo & Batra, 2012).

Figure 4 gives an overview of the facets of KBD in the above Section.

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 Insert Figure 4 here  
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Following is the explanation of Figure 4:

- a) It is premised that knowledge is the key resource for KBD. The four key knowledge processes are creation, acquisition, sharing and utilization of knowledge.
- b) While education and training are facilitators of creation and utilization of knowledge, ICT primarily helps in acquisition and sharing of knowledge (first by explicating tacit



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knowledge and then by diffusion of explicit knowledge). Entrepreneurship is the prime mover of creation and utilization of knowledge for value creation.

- c) The transaction and radical views of KBD have been described earlier. The radical move of knowledge as an instrument for balanced, equitable and sustainable development takes it closer to sustainability objectives. The existence of various KBD frameworks has also been schematically linked with KBD.
- d) The figure also highlights three separate pursuits of KBD namely economic prosperity, human development and sustainability. At present, the sustainability pursuit of KBD is not in sharp focus in the literature, and this needs to be integrated with the others.

### Entrepreneurship, Innovation and KBD

The “UNEC International Conference on Knowledge Based Development and Innovative Entrepreneurship” held at Baku on 24-25 Nov. 2011 examined the linkages between KBD, Innovation and Entrepreneurship. It was observed that knowledge is rapidly becoming today’s key production factor. Knowledge in all its forms plays today a crucial role in economic processes. Firms with more knowledge are winners on markets. Nations endowed with more knowledge are more competitive. National Innovation Systems consider business subsystems including large firms, SMEs and techno-start-ups as an important constituent. Entrepreneurship is deemed as an instrument of the innovation policy of a country (Djarova, 2011). Thus, entrepreneurship, innovation and KBD can be seen as a triad.

### Positioning of Entrepreneurship in KBD Frameworks

The KBD literature has identified at least 22 existing frameworks for conceptualizing, measuring and comparing the extent of development in different geographical strata. These frameworks typically aim at developing composite indicators by identifying their constituent indicators, which essentially relate to various knowledge-based processes. Some of these frameworks compare nations globally (e.g. World Bank’s Knowledge Assessment Methodology) or solely quantify the level of development at country level (e.g. Bhutan’s Happiness Index). Some of these are briefly described below (Carrillo, 2010):

- a) The European Innovation Scoreboard (EIS) focuses on innovation related initiatives and indicators of all members of the European Union. This quantifies innovation inputs and outputs across 25 indicators, over three main innovation dimensions viz. Enablers, Firm Activities and Output.



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- b) World Bank's Knowledge Assessment Methodology (KAM) consists of a set of 69 structural and qualitative variables, which can be used for benchmarking "how an economy compares with its neighbours, competitors, or countries it wishes to emulate".
- c) Sussex's University uses An INEXSK (Infrastructure, Experience, Skills, and Knowledge) approach to illustrate how different combinations of infrastructure, experience, and skills (production & consumption) may be contributing to knowledge-based development.
- d) The OECD focuses on (a) Knowledge Input; (b) Knowledge Stocks & flows; (c) Knowledge Output; (d) Knowledge networks and (e) Knowledge & Learning.
- e) The Australian Bureau of Statistics (ABS) knowledge based economy framework has five dimensions. There are three core dimensions as follows: Innovation and entrepreneurship, Human capital and Information and Communications technology. In addition there are two supporting dimensions: a Context dimension and an Economic and Social Impacts dimension.
- f) The Information Society Index evaluates nations on four sub-indices: Computer index (PC households, IT spending, S/W, Services) to measure the usage and utilization of IT, Telecom Index (Broadband, Wireless Service, N/W Infrastructure) for measuring degree of absorption of ICT, Internet Index (E-commerce spending, Home & mobile web users) to measure degree of utilization of ICTs and Social Index (education, civic liberties, government corruption) measures the degree of penetration of ICTs into information societies.
- g) Happy Planet Index (HPI) tries to serve as a guiding principle, a compass pointing in the overall direction in which societies should be travelling – towards lower carbon and higher well-being lifestyles. It focuses on three barometers viz. life expectancy, ecological footprint and life satisfaction.
- h) The Gross National Happiness Index given by Centre for Bhutan Studies, Government of Bhutan, reflects nation's development with respect to the happiness and general well-being of the people rather than on GDP. It focuses on nine dimensions: Psychological Well-being, Time Use, Community Vitality, Culture, Health, Education, Environmental Diversity, Living Standard, and Governance (Bhutan Happiness Index).

It can be seen that out of the above frameworks, the KBD framework proposed by the Australian Bureau of Statistics incorporates a dimension related to innovation and entrepreneurship; The Happy Planet Index (HPI) of New Economic Foundation incorporate dimensions of ecological footprint and life satisfaction; and World Bank Institute's Knowledge Assessment Methodology (KAM) incorporates innovation as a key dimension. However, most KBD frameworks are silent on the role of entrepreneurship.

### **PURA: The Empirical Dimension**

In this section of the Paper, we look at the concept of PURA to examine its eligibility as a KBD framework and to determine whether and to what extent entrepreneurship has a role to play in



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the realization of PURA. The terms linked with entrepreneurship have been deliberately put into italics to see whether conceptually PURA weaves a thread around entrepreneurship.

### History of PURA

The concept of PURA (Provision of Urban Amenities in Rural Areas) was first mooted by the Task Force on “India as a Knowledge Superpower” (Planning Commission, Govt. of India, 2001). The Report of this Task Force highlighted rural prosperity as an essential element of a knowledge society, and identified poor rural connectivity as one of the stumbling blocks in India’s endeavor to emerge as a knowledge superpower. It suggested a model called “Reurbanization” (an earlier name for PURA), which advocated clustering of villages for establishing schools; health centres and service facilities and connecting them by road and Internet. The new name, PURA, refers to the projects aimed at providing urban amenities in rural areas to help bridge the rural-urban divide. The PURA scheme formulated by the Ministry of Panchayati Raj & Rural Development, Govt. of India was planned to be implemented on a pilot basis in the Eleventh Five Year Plan of the Govt. of India.

### Conceptual Foundations of PURA

PURA has been conceived as a socio-economic system for sustainable growth of the villages of India. It is seen as a well-planned drive towards achieving an inclusive and integrated development starting at the village household level; and for creating amenities of urban standards in a rural environment. It is envisaged that in a typical successful cluster of villages in a PURA, the households would participate according to their skills and needs, with an opportunity for capacity building and gaining access to basic amenities. The development of a PURA would require careful analysis of available resources at the village level and prioritization of the needs of the local population. It envisages an integrated development plan with employment generation as its focus. The project activities begin with households in a village and move up to village cluster, (a group of villages sharing basic economic and social assets), such that the village cluster can be transformed to a self-dependent socio-economic entity. A key premise of the PURA concept is that each village presents opportunities for *entrepreneurial ventures* and social initiatives (Kalam & Singh, 2011).

### Four Types of Connectivity



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PURA envisages that three types of connectivity, namely, physical, electronic and knowledge connectivity are essential to achieve the fourth type of connectivity, namely, economic connectivity.

Physical connectivity implies that the villages in a PURA cluster must be connected with each other and with main towns and cities by good, well networked roads/ railway lines, etc. as well as with an infrastructure of schools, colleges, hospitals etc. The focus is not only on creation of these assets, but also on their utilization.

Electronic connectivity refers to ICT enabled means of networking among people of the village clusters and with the external world, thereby providing important tele-services such as tele-education and tele-medicine, through cellular and broadband facilities.

Knowledge connectivity refers to the ability to create knowledge networks and enhance educational initiatives, thereby adding to the capacity of human resource; strengthening the competencies at the village cluster level; and enhancing the capability for creating knowledge-based enterprises.

Economic connectivity is the consequence of the first three levels of connectivity. In simple terms, it refers to the creation of employment, *entrepreneurship*, and income augmentation of rural areas, based on a holistic prediction of the demand for support services. The stakeholders which are actively engaged in providing economic connectivity in a PURA cluster typically include *individual entrepreneurs*, extensions of large corporates, cooperatives, self-help groups of women (in other words, groups of women entrepreneurs), service industry and small scale industries. In all these cases, *entrepreneurship* has a key role to play in synergizing the first three levels of connectivity and facilitating the emergence of economic connectivity.

### Focus on Sustainability

PURA begins with a belief in a value-based society. It is a model of customized connectivity with integrated action leading to sustainable development of the rural complex constituted by the cluster of villages. All connectivity, through integrated action along planned enterprise creation, environment friendliness, societal asset creation and community action would lead to sustainability along six dimensions of sustainability, namely, economic, technological, social, environmental, value and learning sustainability.

### PURA as a PPCP Model



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The community plays an important part in implementing a PURA initiative. The PPP model on which PURA's vision is based thus evolves into a PPCP Model. The community has important roles to play in planning through assessment of core competencies and priority needs; execution through actions such as formation of SHGs etc.; sustenance, by generating and augmenting local markets; and finally, growth through promoting participation of the marginalized sections for better inclusion.

### Empowerment through Entrepreneurship

Building avenues for quality employment in PURA complexes is one of the fundamental pillars of PURA vision. This requires *job creators or entrepreneurs engaged in sustainable and societally beneficial entrepreneurship*. The PURA concept aims at focusing on *empowerment through entrepreneurship, by generating enterprises* at the local level, both in products and services. *Creating entrepreneurs* has a multiplier effect on the economy and employment in the rural complex. *Creation of one micro-entrepreneur* would typically lead to the opening up of about five wage employments. A well planned small enterprise may generate 40-50 wage employments of different kinds. Each PURA is a business proposition of about Re. 1 billion with PPC partnerships over a project period of about 5 years. Thus, PURA offers an *entrepreneurial opportunity* which generates social transformation and is financially feasible.

Entrepreneurship under PURA concept is essentially characterized as *rural entrepreneurship*, since it is based in rural areas. This has certain inherent advantages as well as limitations. On the positive side, it is hypothesized that the marginal return on investment in rural areas is far more than in urban areas. The rural areas offer a clean, green environment for the enterprises to be created. Rural areas are also a source of an immense natural talent, human skills and local competencies, which otherwise lie untapped. The cost of setting up a business is far lower in rural areas. Govt. and banks are supportive of priority lending and mobile connectivity is steadily rising in rural areas. *Rural entrepreneurship also provides scope for tapping horizontal markets*. However, in order to tap external markets, the products and services coming out of rural enterprises should be as high on the value chain as possible, since a *rural entrepreneur suffers from diseconomies of scale*.

*Two kinds of entrepreneurs* are envisaged in the PURA concept, namely, *resource entrepreneurs and social entrepreneurs*. The key focus of resource entrepreneurs is on economic realization of resources such that the output moves up the value chain. The focus of social entrepreneurs is on improving various components of Human Development Index (HDI) of the PURA cluster and on promoting translation of purchasing power into a better life. These indicators of human development include enrolment in various categories of education, life expectancy, health, etc. as encapsulated in the UNDP's HDI Reports. *The PURA entrepreneurs* are expected to link



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together all the key ingredients of a successful new business. These include, among others, financing, innovation, technology, establishing brands and markets; employing the best operational practices and developing local competencies.

The PURA model also refers to *eco-preneurship as a type of entrepreneurship* which ‘provides a bridge between environment and business’, and recognizes that PURA complexes especially in forest regions provide such opportunities...However, the thrust of PURA is not on eco-preneurship.

### Enterprise Value Generation in PURA

PURA like any other sustainable development system would be evaluated based on the triple bottom line of people, planet and profits. The achievement on people dimension could be seen in the form of direct or indirect return achieved on various indicators captured through the “social development radar”. The achievement on planet dimension could be seen in the form of impact on the natural resources. Lastly, the achievement on profit dimension could be seen in the form of monetary income plus how sustainable the income levels are over a period of time.

### Role of PURA Corporation

PURA Corporation is envisaged as a repository of knowledge and an open source for technologies and innovation, which is relevant in the rural context. It is expected to act as knowledge-provider for integration of ideas & innovations, and to provide an incubation channel to promote *entrepreneurship*. PURA Corporation is expected to act as a business forecasting engine; present each venture as a unique investment opportunity; and accept responsibility for attracting equity investment. It is argued that those implementing PURA will have to act as *social entrepreneurs/ engineers* rather than mere creators of assets. Thus, a value system of *social entrepreneurship* is critical for success of PURA. *Social entrepreneurs* are well qualified people with a mission to change society in a sustainable way. PURA aims at developing human resources with a value system and *entrepreneurial skills*.

Case Study of Chitrakoot PURA Cluster: Batra et al (2011) have explored how “Chitrakoot”, a successful PURA Cluster in India fits into the conceptual description of the PURA model stated above. Here we extend the discussion of that Paper to ascertain the extent to which entrepreneurship has played a role. The Chitrakoot PURA was launched by a well-known NGO and covers 500 villages around Chitrakoot area in the border of two large States of India,



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namely, Uttar Pradesh and Madhya Pradesh. In the first phase, a total of 80 villages were covered. The project was based on a model that covers health, hygiene, education, agriculture, income generation, conservation of resources and social conscience in the project's focal area; and is claimed to be both sustainable and replicable. The key tenets of Chitrakoot PURA are as follows. These have been documented based on a field survey carried out to obtain an on-the-ground appreciation of the Chitrakoot PURA cluster.

Graduate Couples as Social Catalyst: Graduate Couples are chosen to act as catalysts of change, and key functionaries in the self-reliance campaign of Chitrakoot PURA. These graduate couples live within the village itself, and are responsible for motivating and guiding a cluster of five villages. They get involved in all areas of concern of the village folk, namely, increasing incomes; removing unemployment; improving agricultural techniques; imparting education; enhancing health & hygiene facilities; promoting the concept of clean & green village; helping resolve disputes at the village level itself; and increasing social consciousness by encouraging villagers to live in harmony with mutual respect and complementarity. Thus, the graduate couples act as nodal points for all KBD initiatives in their respective village clusters.

Bottom-to-Top Development: The Chitrakoot Model has adopted 'Participatory Rural Appraisal' that focuses on a bottom-to-top approach to development in villages. It emphasizes development through participation of the villagers. It understands the needs of a particular village and its people and the development programs are created based on the suggestions and participation of the villagers.

Reverse Migration: The Chitrakoot model aims at reverse migration of people, expecting them to come back and contribute towards the betterment of their villages.

Loan for Development: The model provides interest free loans to the village people for entrepreneurial activity; and there has been a history of 100% repayment till now.

Education: Under the model, six educational institutions have been established, and these have been able to reach out to almost 40,000 students in the 512 villages. It is ensured that the rural students get proper education till class VIII so that they are at par with the urban students.

Women Empowerment: The 'Graduate Couple as catalyst of change' program focuses upon woman education. Awareness is generated among rural women and they are encouraged to establish small entrepreneurial set ups.

Alternate Energy: Scarcity of electrical power has been an issue at Chitrakoot. Solar lanterns have been provided in the villages as an alternate means of energy for these people.

Dispute Management: One person in every village, usually the most respected and older, is assigned the responsibility of ensuring that personal disputes among village folks are settled expeditiously.



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Resource Centre: A resource centre for each village cluster keeps the information stored both in hardcopy and electronically. It works as the nodal point through which all interventions flow to the local villagers in the self-reliance campaign.

Preservation of the endangered, indigenous and pure breeds of cattle: The Chitrakoot PURA cluster is also concerned with preservation of indigenous breed of cows for dairy, cultivation and other multiple purposes. The products such as milk, bio manure and cow urine are sold in the market and have become profitable units since then. Many animal husbandry products have also become popular recently and have a good market.

Health: Ayurveda Medicines are developed from medicinal plants by integrating the conventional, long-established knowledge with recent available technology. 500 species of herbal and medicinal plants are maintained as specimens and for generating awareness among masses. Ayurvedic research center checks the quality of the medicines.

Agriculture: Farm Research Centres, established under the Project, transfer agricultural technologies to the doorsteps of the farming community and give vocational training in agriculture and other allied fields on need-based technologies in India. E-connectivity has been established among these villages and Farm Research centres have adopted a policy to send important notice and information to farmers through SMS in mobile.

Watershed Management: The villages in Chitrakoot PURA are draught-prone historically as well as due to climatic changes in recent years, resulting in scarcity of water. With the help of scientists at Farm research Centre, villagers have resorted to rain water conservation, thereby helping villages to have more water for irrigation.

Entrepreneurship: To encourage local entrepreneurship and generate extra income to the rural families in PURA clusters, an Entrepreneur Training Centre adopting a production-cum-training model, has been established. This has helped provide additional income generating options to the villagers.

An analysis of the above information indicates that entrepreneurship by the NGO which initiated the Chitrakoot Project is inbuilt into its inception. Conceptually, the objectives of this entrepreneurial activity are clearly related to creating social value in the form of education, women empowerment, alternate sources of energy, health, agriculture and watershed management etc. The features of bottom-to-top development and reverse migration etc. point towards its sustainability objective. Also, the model envisages a key role for graduate couples, who act as social entrepreneurs in their individual capacity. Lastly, the Chitrakoot PURA model promotes entrepreneurial activity through initiatives such as interest-free loan and through entrepreneurship training and vocational training.

## 5. Discussions



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It can be inferred from the above that PURA can be rightly proclaimed as a model of sustainable knowledge-based development in rural India. This model leverages entrepreneurship for strengthening physical, electronic and knowledge connectivity, leading to economic growth with sustainability. The model banks upon entrepreneurship as a propeller of economic empowerment. The entrepreneurs play a key role in realizing a PURA model and are expected to be intimately aware of the rural landscape, local resources and local opportunities for enterprise creation. The rural entrepreneurs engaged in PURA projects are expected to be innovative in identifying value creation opportunity in the value chain. They are expected to simultaneously achieve the financial and social objectives of their enterprise creation. While they are supposed to be concerned with economic realization of resources for moving up the value chain, they are also focused on providing better quality of life to the village inhabitants, and thereby obviate the need for migration of village population to urban areas. However, the concept of sustainable entrepreneurship (or even eco-entrepreneurship) is not central to PURA, though it emphasizes role for various social actors in providing entrepreneurial initiative.

The concept of PURA elaborated here represents the wish list of the proponents of the PURA Model. However, the Chitrakoot PURA Model, though regarded successful, doesn't clearly reflect the integration of three types of connectivity (physical, electronic and knowledge) leading to economic empowerment. Despite this limitation, it is evident that entrepreneurship has been deemed as an instrument to achieve sustainable knowledge-based development based on local resources.

## 6. Implications

There appear to be a few clear implications emerging from the work done in this Paper.

Firstly, there is considerable scope for bridging the literature of KBD, sustainability and sustainable entrepreneurship. For example, despite being a model of knowledge based development, PURA doesn't find mention in the KBD literature. The theoretical advancements in the discipline of KBD must begin to look at sustainable development as the overarching end objective of development and dwell into the precise role and mechanism which knowledge should to play in this.

Secondly, entrepreneurship (or more precisely, sustainable entrepreneurship) should get reflected as the prime mover of KBD, since without the proactive contribution by entrepreneurs, the progress towards sustainable development is bound to be slow. Thirdly, the entrepreneurial mind



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set should consciously envision the larger sustainability dimension as the value creation which the entrepreneurs should strive for.

Thirdly, in the context of PURA, a gap between percept (the theoretical foundations of PURA) and practice (the adoption of the theoretical foundation in the successful PURA model of Chitrakoot) is visible. This in itself is not a negative point because as entrepreneurs, the originators of Chitrakoot PURA act upon their value judgments and make the necessary adaptation to implement their ideas. Nevertheless, in the design of future PURA projects by any agency, it is desirable that the linkage between three types of connectivity (physical, electronic and knowledge) with local economic empowerment and social value creation should be further enhanced to establish the next level of linkage with sustainable development. It is known for example that the Government of India through its Ministry of Rural Development is inviting proposals from established firms to develop PURA clusters in accordance with the guidelines formulated by the Ministry. However, the sustainable development dimension is conspicuous by its absence in these guidelines.

## 7. Concluding Observations

In this Paper, an attempt has been made to develop conceptual linkages between entrepreneurship (including sustainable and social entrepreneurship), knowledge, innovation and knowledge-based development. These linkages have been initially seen from a theoretical perspective based on literature survey. Later, they have been examined from the empirical perspective of PURA in the Indian context, both as a development model and its application in a specific case. There is considerable scope for further research into this subject. One potential pursuit, for example, is to develop an appropriate KBD Framework, which facilitates measurement of the entrepreneurship and sustainability related indicators.

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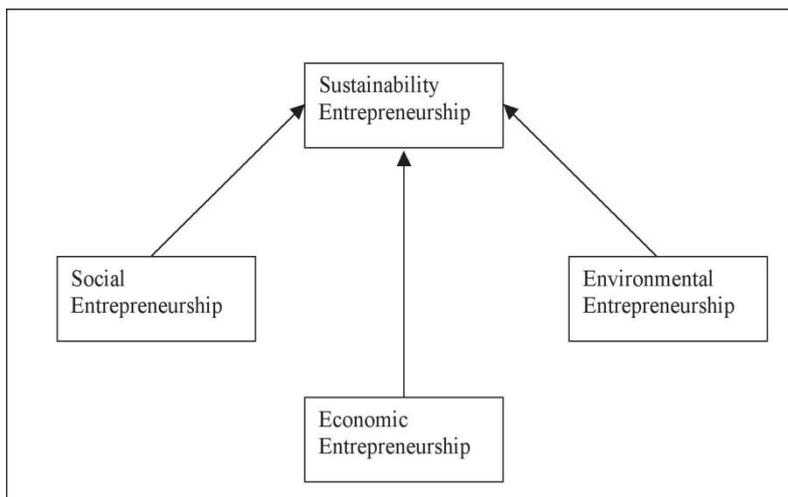
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**Figure 1**

**Linkages between Social, Sustainable and Environmental Entrepreneurship**

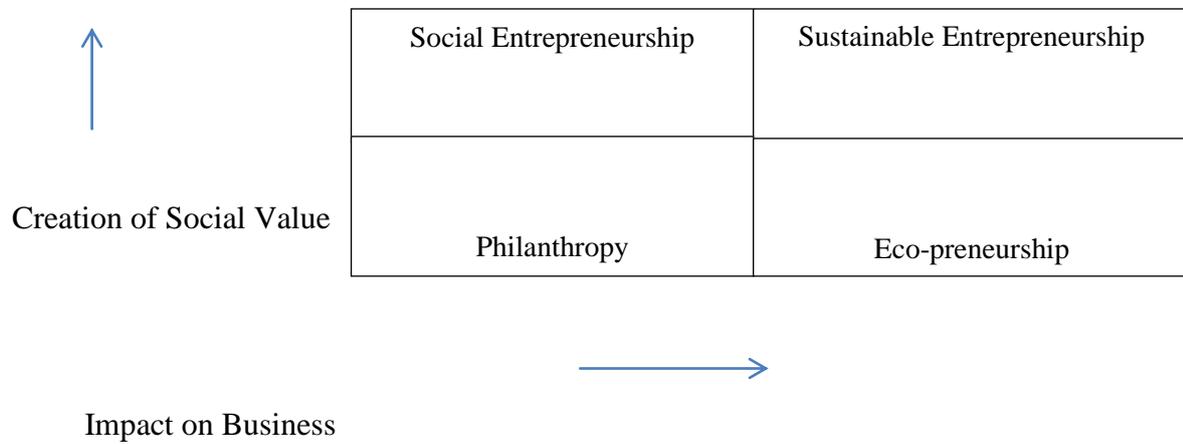


Source: “A New Course on Sustainability Entrepreneurship”,

Anuradha Basu, Asbjorn Osland, and Michael Solt, San Jose State University

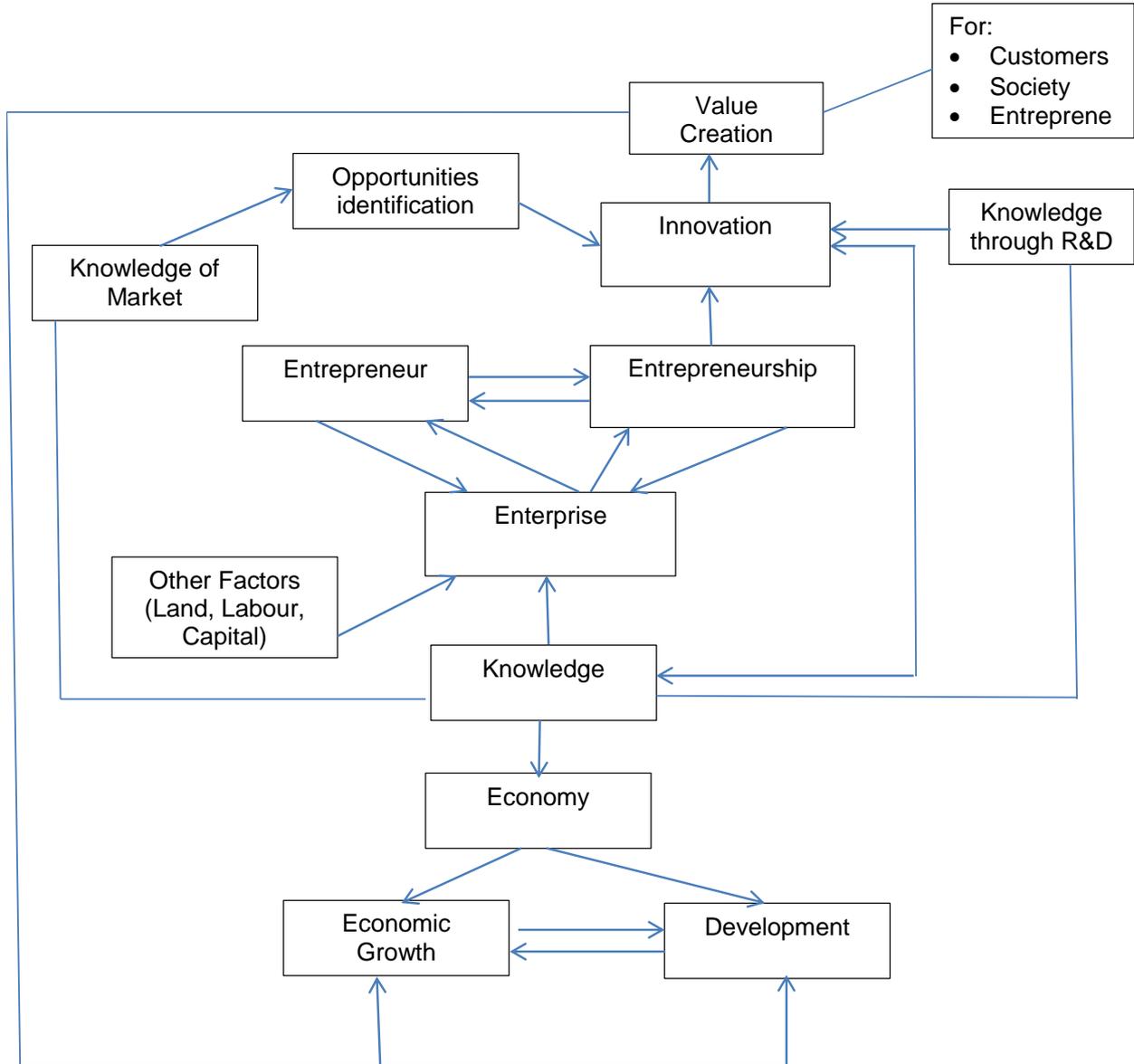


**Figure 2**  
**Models of Social, Sustainable and Eco-preneurship**



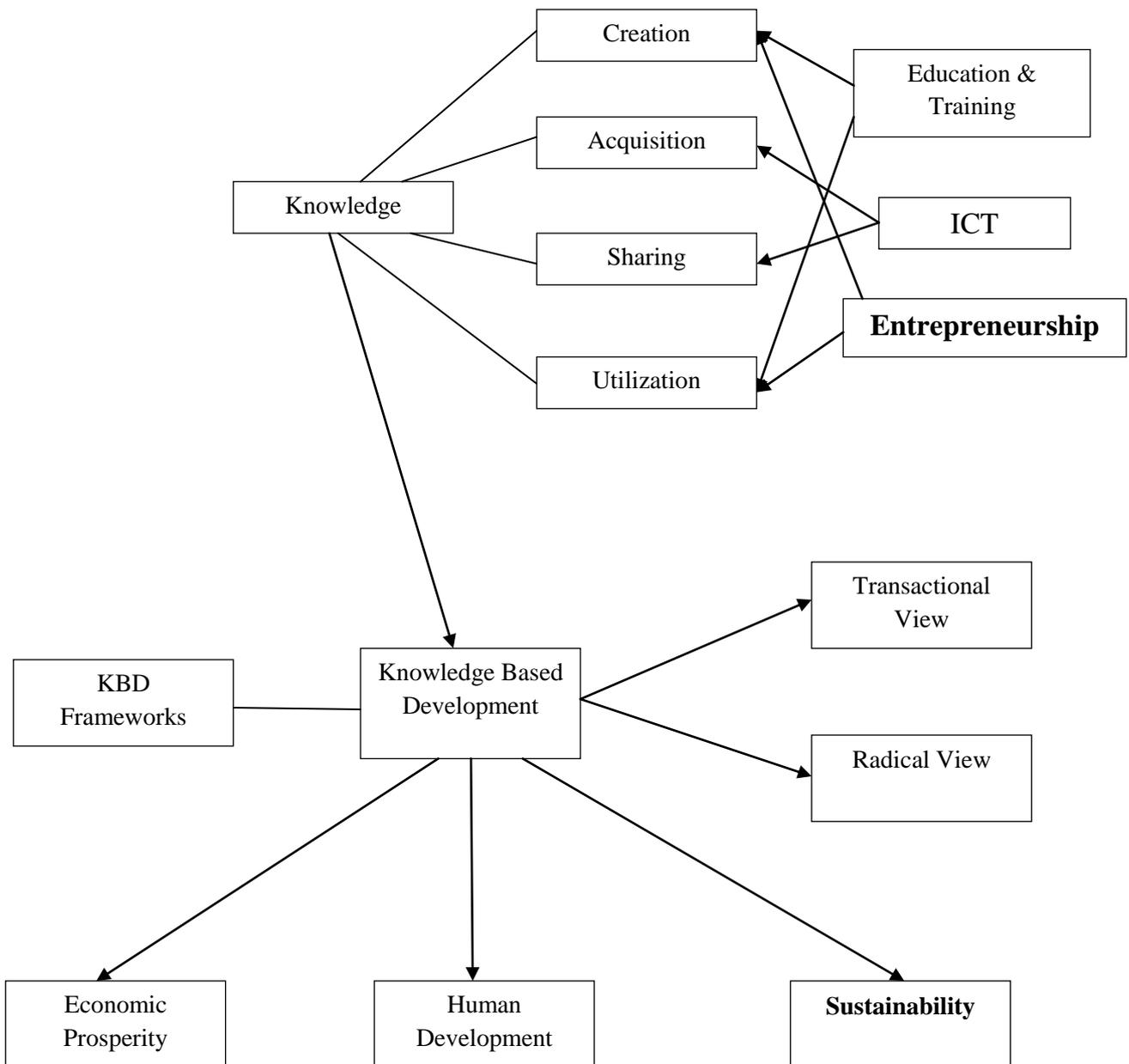
Source: Weber, Manuela (2007) – “Towards Sustainable entrepreneurship: A Value Creating Perspective on Corporate Societal Strategies: Discussion Paper”, Center for Sustainability

**Figure 3**  
**Linkages between Entrepreneurship, Innovation and Knowledge**



**Figure 4**

## Facets of Knowledge Based Development





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## SUSTAINABLE ENTREPRENEURSHIP – CASE STUDIES OF INDIAN SMEs

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### ABSTRACT

The objective of the paper is to contribute a brief overview of various initiatives by SME Entrepreneurs in India towards Sustainable Entrepreneurship. The study will present a detailed descriptive analysis of emerging trends of green firms business in India. This will serve also the policy interest of all major stakeholders

Entrepreneurial endeavour that takes into consideration the short, medium and long term assuring a continuity of life for all is **Sustainable Entrepreneurship**. It means the search for the common good. **Sustainability – both environmental and social, means living a balanced life today, a healthy way of living in which no one lives at the expense of anyone else (situations in which, for example, some have an excess of food while others have none or little)**. For those who have little or nothing, life is not sustainable. It means a way of organising entrepreneurial activities that consider the needs of future generations (OSCAR MOTOMURA) and ensure continued decent sustenance for people and physical environment.

Therefore, the increasing awareness of environmental issues has resulted in greater interest in firms that reduce detrimental environmental impacts (DEAN & Mc MULLEN 2007) and also deal with the socio-economic inequities which could become a threat to social structures. There



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is a definite and committed focus towards green firms and poverty alleviating enterprises and their contributions.

The study is **an exploratory research** based on the studies of SME Entrepreneurs in India who have taken considerable measures for sustainability. It comprises of one to one interview with SMEs in INDIA who have established firms with environmental purposes focusing on maximising firm growth and global markets.

The findings of the study will report preliminary findings which provide an opportunity to explore the process and outcomes of their efforts for sustainability. It will also look at some forms of social entrepreneurship in India, which present sustainable models for others.

As an implication of the study it is expected that the findings will assist to develop an understanding of firms that are driven to contribute to a society which is sustainable from all perspectives-economic, environmental and social

**Keywords:** Continuity of life, Common good, Green firms, Descriptive analysis, Social Entrepreneurship, Sustainable Development.

## 1. INTRODUCTION - Context and Perspective

Sustainability of physical environment and the green movement have emerged centre-stage in the recent years starting 1990 because of the impact of deterioration in the environment caused by the release of harmful carbon dioxide in the atmospheres to pander to the growing demands of consumerist society. While nations wish to accelerate the pace of development to meet the aspirations of the growing population, the quality of environment suffers causing phenomena like 'Ozone hole' and hot house effect and disappearance of the 'green cover' with adverse impact on the quality of the environment and climate change. At the international level, the serious concern on this issue brought about meeting of developed and undeveloped (developing) nations at fora like Kyoto, Rio and Copenhagen.

Where the developed nations had to unwillingly accede to demands for financial and technical support in containing environmental deterioration and degradation with adverse impact on the pace of industrial development, suddenly humanity faced the choice between exhausting most of earth's resources and causing serious damage to environment, and accelerating the pace of industrial development to ensure a comfortable life for the present generations ensuring sustenance of environment so that future generations are also given the chance to live, work and enjoy life. Sustainable Development is a concept rooted in this context.



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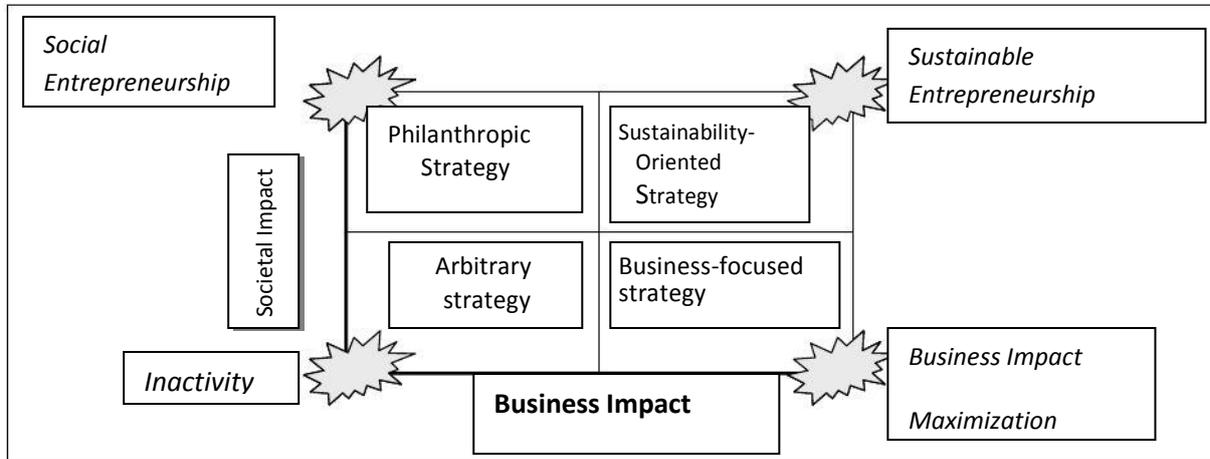


In 1987, the World Commission on Environment and Development of the United Nations first described and defined sustainable development as a process in which the exploitation of natural resources, the allocation of investments and the process of technological development and organisational change are in harmony with each other for both current and future generations.

In the context of business and economy, **the concept of sustainable development translated into integrated concerns for ‘people’, ‘planet’ and ‘profits’**. It involved search for strategies by which human endeavours can be enhanced through better quality of organizational culture and environment while discharging the obligation to society for serving the planet for future and earning decent financial returns for sustaining business.

Entrepreneurial endeavour that takes into consideration the short – medium - and long- term **continuity of life for all is sustainable entrepreneurship (Oscar Motomura)**. Sustainable entrepreneurship can be defined “as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations” (**Evy Crals and Lode Vereeck, World Business Council**). Thus, **sustainable entrepreneurship a dynamic concept rooted in the broader concern for sustainable development. Sustainable entrepreneurs contribute to sustainable development by doing business in a sustainable way.**

While sustainable entrepreneurship has been considered from various micro and macro perspectives, it can best be related to the concept of CSR (**Kramer and Porter**) which advocates a stakeholder perspective as a part of the competitive strategy of a business firm. **Manuela Weber** of Luneburg examines various approaches to CSR and posits an integrated model given below which seeks to reconcile business impact of business strategy with social impact.



### Ultimate designs of value creating societal strategy options

It can be seen here that sustainable **entrepreneurship is the best mode of combining high business impact with social impact of entrepreneurial moves and strategies**. “A sustainable entrepreneur does not only include the economic and ecological but also the social dimension into all management decisions striving to create the highest possible societal value which at the same to ensuring the highest possible business impact. Societal interests are tackled by all business activities which can lead to innovative business models that can contribute to more sustainable society” (Manuela Weber)

While SMEs with their significant contribution to production, export and economic growth are relatively slow to accept the strategy of sustainable entrepreneurship, because of the drive towards more profits, they are now beginning to see its implications and gains. **In this context, a study has been made by us as reported below.**

### 2. OBJECTIVES OF STUDY

- To explore the initiatives taken by SMEs in India for sustainable entrepreneurship.
- To find the problems faced by them and the benefits envisaged/reaped.
- To find the measures taken by them and outcomes of their efforts.
- To present an analysis of emerging trends of green firms businesses in India.
- To find the implication/s for the Government in the design of better conditions and support - system for the creation of new businesses looking for this endeavour.



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### 3. METHOD /APPOACH

The method adopted for the study has been **an exploratory survey of 30 SMEs** firms by administering a **questionnaire** seeking their responses. **(Appendix-1) The firms are located in states of Maharashtra and Gujarat which are highly industrially developed states in India.**

#### Appendix-2 Three Case Studies

**Appendix-3 covers two reports published highlighting lessons in sustainability from India’s entrepreneurs and the National Action Plan on Climate Change (NAPCC).**

### 4. FINDINGS AND DISCUSSION

#### (a) Demographic Profile of Respondents

Details regarding **the demographic characteristics of the respondents in this study include Age, Education, Training/Conference attended, Prior Experience, Duration and Nature of Enterprise, etc.**

**Table No. 1**

**Number of Respondents (CityWise)**

| City       | Number of Respondents (SMEs) |
|------------|------------------------------|
| Mumbai     | 18                           |
| Baroda     | 02                           |
| Ahmedabad  | 03                           |
| Nashik     | 04                           |
| Ahmednagar | 03                           |
| Total      | 30                           |

**More than 50% of the respondents are drawn from the mega polis of Mumbai**

- Age



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**Table No. 2**

**Age profile of Respondents**

| Age Range | Number of Respondents |
|-----------|-----------------------|
| 26 - 35   | 08                    |
| 36 - 45   | 06                    |
| 45+       | 16                    |
| Total     | 30                    |

From the above table, it can be seen that there are more number of respondents in the age group (45+) years. It is attributable to the fact that environmental awareness takes some time to sink in and that awareness of gains of sustenance of environment need to be highlighted specially to younger entrepreneurs who may be struggling with their survival and growth

**• Duration of Enterprise**

The table given below presents the details of duration of enterprise i.e. **how old is the enterprise?**

**Table No. 3**

**Duration of Enterprise**

| Years of Enterprise | Number of Respondents |
|---------------------|-----------------------|
| 3 – 5               | 03                    |
| 6 - 8               | 07                    |
| 9 - 12              | 08                    |
| 12+                 | 12                    |



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|       |    |
|-------|----|
| Total | 30 |
|-------|----|

Most respondent enterprises are between 9 years to 12 years

### • Education

Education is an important factor influencing significantly to the success of business and taking innovative initiatives to make the business profitable and competitive.

**Table No. 4**

### Education

| Education           | Number of Respondents |
|---------------------|-----------------------|
| Diploma Engineering | 10                    |
| Degree Engineering  | 13                    |
| Others              | 07                    |
| Total               | 30                    |

**Around 75% respondents have had their education in Engg. & Technology.**

### • Nature of Activities

**All the respondents are engaged in manufacturing products.**

### • Prior Experience

Like educational qualification, the nature and years of prior experience before starting the enterprise by the entrepreneur also plays an important in deciding start-up activity and later on improving efficiency in management, production and control. This definitely puts an entrepreneur in advantageous position for growth and sustainability.



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**Table No. 5**

**Prior Experience**

| Prior Experience Range | Number of Respondents |
|------------------------|-----------------------|
| 0 – 5                  | 10                    |
| 6 – 10                 | 05                    |
| 11 – 15                | 04                    |
| 15+                    | 11                    |
| Total                  | 30                    |

**The above tables give an overview of characteristics of the sustainable entrepreneurs. More of them have higher engineering education, higher age group and years of prior experience.**

**(b) Sustainopreneurial Details**

The details as regards **awareness and its sources, initiatives and their implication for sustainability have been discussed in the tables given below**

**• Awareness about sustainability**

**20 respondents** have stated that they were aware about green business and sustainability etc **at the start-up stage** where as remaining **10 respondents** became aware after the business was started.

**• Sources of Awareness**



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**Table No. 6**

**Sources of Awareness**

| Source                             | No. |
|------------------------------------|-----|
| Reading                            | 25  |
| Conference/ Seminar                | 20  |
| Perceiving as Business Opportunity | 18  |
| Social Perspective                 | 10  |

**25 respondents** became aware through reading (print media) which indicates that press has to play an aggressive role in highlighting the need for awareness of need for green environment by citing examples of enterprises that earned profits showing concern for environment.

**• Competitive Advantage**

**Large number of respondents (22)** had reported that they had perceived sustainable entrepreneurship as a **very strong competitive advantage in the globalized world.**

This is an encouraging sign as it should serve to create greater awareness of sustainable environment among SME who might otherwise be sceptical.

**• Problem faced /anticipated**

The SMEs respondents have reported the following problem faced with regards to sustainable development of the firm

**Table No. 7**

### Problem faced/anticipated

| Problems                    | No. |
|-----------------------------|-----|
| Lack of Technical Expertise | 12  |
| Lack of Govt. Support       | 25  |
| Lack of Financial Resources | 22  |
| Fear of Change              | 11  |

While there has been a fairly good increase in the number of initiatives aimed at SMEs, the measure of support have not also been correctly tailored to the needs of SMEs. They are found too general, time-consuming or poorly promoted. The government will have to play a proactive role specially in making technical expertise and financial aid available to SMEs so that they are enabled to initiate requisite action on environment.

### • Benefits Received/Envisaged

The respondents had reported the following benefits received by them as a result of sustainable entrepreneurship initiatives taken by them

**Table No. 8**

### Benefits Received/Envisaged

| Benefits                        | No. |
|---------------------------------|-----|
| Efficient Production/Services   | 23  |
| Enhanced Competitive Advantages | 22  |
| Higher Firm Growth              | 21  |
| Higher motivation of Employees  | 23  |
| Contribution towards CSR        | 12  |
| Higher Risk Control             | 15  |

|                               |    |
|-------------------------------|----|
| Global Business Opportunities | 08 |
| Positive Image/Reputation     | 25 |

It is found that a **general gain of adapting sustainable entrepreneurship is the internal dynamics that sustainable approaches introduce in the production process and human resource management.** This is heartening and needs to be publicised so that more SMEs can take to these measures.

#### • Steps taken towards sustainable entrepreneurship

The respondents were asked to report one step taken by them towards sustainability as regards:

- **Protection of Physical bio-environment**
- **Improving the social environment including poverty alleviation**
- **Ensuring financial stability for long run**
- **Sustaining the organization through improvement in human environment (motivation, etc.)**

The responses are summarized as:

- **Organic products and services**
- **Pollution prevention through hi-tech solutions**
- **Reformulating products and processes**
- **Recycling**
- **Adaption of higher technological sophistication**
- **Reduction of environmental damage**
- **Respecting human rights and treating employees with great care**
- **Ensuring that the new practices and initiatives are shared by the enterprise as a whole, and not solely efforts of the management**

#### • Role of Government in promotion of Sustainability

The respondents reported that while there has been a fairly good increase in the number of initiatives aimed at SMEs towards sustainability, **the government support and its measures have not always been correctly fulfilling the needs of SMEs. At times, they are impractical, passive, superficial or lacking in quality and inflexible. They are poorly targeted.** There has



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also been an **overemphasis** on environmental management systems and certification at the expense of eco-efficiency, eco-design, integrated approaches and sustainable production.

## 5. IMPLICATIONS

Small and Medium-sized enterprises make a substantial contribution to economic growth and employment. **The individual impact of SMEs is relatively small, but their collective impact is substantial.**

Sustainable entrepreneurship gives firms an **opportunity to distinguish themselves from others**. The returns on investments have been encouraging. They financially outperform others.

Sustainable enterprises enhance their public reputation by showing respect for people and social responsibility.

**A general gain of adapting sustainable entrepreneurship in Indian SMEs surveyed and other reports is the positive, motivating internal dynamics that sustainable approaches introduce in the production process and human resource management.**

The measures of support system have not been adequately tailored to the needs of SMEs. At times, they are found to be impractical, expensive, lacking quality and time-consuming.

## 6. CONCLUSION

In this exploratory study, we have surveyed 30 SMEs characterised by having a green or sustainability/environmental focus.

**Globally, sustainable entrepreneurs are more aware of the negative effects of pollution, energy dependence, and climate change than ever before. These environmental challenges are opportunities for them which can be capitalised through innovative business solutions that benefit the environment, create jobs, and generate wealth.**

They bear relevance to the developing world, primarily due to their role as the private sector in reducing poverty. This affects them because the growing public awareness of corporate governance and of environmental and social issues is driving changes in consumer behaviour, investments, and policy or regulatory adjustments



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**The case studies and published reports annexed conclude that sustainable entrepreneurs overcome business challenges and spark economic development as well as environmental improvement in India. The smaller financial resources of SMEs do not need to be a determining prohibitive constraint.**

**The published report shares five key sustainable business lessons from India for the world. They are: Hire people, not machines; cultivate self-reliance; think in whole-systems; align with natural forces and plan first, then jugaad.**

Entrepreneurship which is the cornerstone of SMEs is about seeing opportunities for creating value for customers or users and seizing them through the establishment of profitable business. **Sustainable entrepreneurship does not focus only on profit but goes a step beyond by emphasising additional goals for promoting sustainable living and environmental improvement.** Our limited study shows that some SMEs do find it possible to reconcile profit with these social objectives. **In fact, we argue that creating a positive image with the society by promoting social good has the advantage of putting SMEs into favourable light and enhances their image. It is heartening that this is now beginning to be realized by the Indian entrepreneurs in SMEs. It is time that the Government is committed to the promoting of environmental sustenance; pursue the goal with vigour in relation to SMEs by making supports available to them for adopting sustainable environment as a goal.**

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Oscar Motomura, **Sustainable Entrepreneurship.** [www.amana-key.com.br](http://www.amana-key.com.br)

**Saatchi & Saatchi report,** Lessons in Sustainability from India's Entrepreneurs

**New Ventures India Forum** -<http://www.embarq.org/en/node/415>

**National Action Plan on Climate Change (NAPCC) Report**

**Towards Sustainable Entrepreneurship; Discussion Paper , Manuela Weber**

## APPENDICES



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## APPENDIX -1

### QUESTIONNAIRE

#### Demographic Profile

(1) Name of Organisation/Company, Location:

(2) Name of Entrepreneur & Qualification/s:

(3) Year of Establishment:

(4) Nature of Activities (including Products/Services):

(5) Experience: Prior \_\_\_\_\_ Current \_\_\_\_\_ (as an entrepreneur)

#### Sustainopreneurial Details

(6) Awareness about sustainability: At initial stage (start up)  At present stage

(7) Awareness about sustainability through: (i) Reading

(ii) Conference/ Seminar Attendance

(iii) Perceiving as Business Opportunity

(iv) Social Perspective

(8) Do you perceive SE as a strong competitive advantage? Yes  No



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- (9) Problems faced/anticipated in Implementation:
- (i) Lack of Technical Expertise
  - (ii) Lack of Govt. Support
  - (iii) Lack of Financial Resources
  - (iv) Fear of Change

- (10) Benefits Received/Envisaged
- (i) Efficient Production/Services
  - (ii) Enhanced Competitive Advantages
  - (iii) Higher Firm Growth
  - (iv) Higher motivation of Employees
  - (v) Contribution towards CSR
  - (vi) Higher Risk Control
  - (vii) Global Business Opportunities
  - (viii) Positive Image/Reputation

(11) What is one important step that you have taken towards sustainability in each of the following areas?

(i) Protection of Physical bio-environment

---

(ii) Improving the social environment including poverty alleviation

---

(iii) Ensuring financial stability for long run



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(iv) Sustaining the organization through improvement in human environment (motivation, etc.)

(12) Role of Government in promotion of Sustainability:

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(iii) \_\_\_\_\_

Thank You

## APPENDIX -2

### CASE STUDIES

#### CASE – 1: Nandan Biomatrix Limited

##### A Leading Sustainable Solution Provider

Established in December 1999, Nandan Biomatrix Limited (NBL) is an ISO 9001-2000 certified leading sustainable energy provider and herbal nutraceutical company headquartered in Hyderabad (India). We offer Jatropha based bio-diesel energy solutions and herbal nutraceutical products. With foresight and planning NBL has marked its presence in the Indian bio-diesel space and emerging herbal nutraceutical product market. We are way ahead of the competitors and have captured a significant market share in both the industries. The key to our success & growth is the innovation in R&D, published patents of Jatropha hybrid and Safed Musli patent grant for its composition & process for preparation.

With a focus on ‘Sustainability’ we have developed cutting–edge technologies, that benefits the entire bio-diesel spectrum from Seed to Oil and medicinal herb panorama from Farm to Pharma and beyond. To gain leadership in these emerging market segments, NBL has adopted a unique Vertically Integrated Approach whereby the company endeavor to improve and innovate in every phase of product formulation



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starting from research & development to on-field technology transfer; raising to procuring, processing and marketing for multiple industry applications.

NBL competitive asset is its committed team of experts and state of the art technology that has enabled it to excel in R&D on Bio-diesel crop Jatropha and wonder medicinal herb Safed Musli. The company has achieved publication of its four patents on superior Jatropha hybrids by World Intellectual Property Organization (WIPO) Geneva, Switzerland and patent on Safed Musli compositions & process for preparation thereof. The in-house technologies and research facility, developed through years of research experience, has been recognized by esteemed institutions like Department of Science & Industrial Research (Government of India).

The company plans to raise about 800,000 ha of Jatropha plantation, by 2017, so as to produce 2.8M tons of biodiesel/yr. In order to achieve this gargantuan target, NBL has adopted state-specific implementation methodologies based on differing socio-economic and geo-political scenarios. This operation flexibility has enabled NBL to successfully establish industrial scale Jatropha projects on about 40000 ha of degraded marginal lands pan-India (Gujarat, Uttar Pradesh, Orissa, Karnataka, Andhra Pradesh and Madhya Pradesh) and thus, match supply with the rapidly increasing demand from the off-takers.

For ensuring the quality of the herbal products of high therapeutic value the company has accomplished cultivation on over 10000 acres of land with an extended research coupled with good agronomical practices aiming to retain the herbs' finest essence and purity. A new element in our R&D activities is our recently established German 2nd generation Catalytic De-Polymerization (CDP) Technology Pilot plant, which enables us to produce biodiesel from biomass and Jatropha oil mixture. The technology will completely transform the economics of

Jatropha cultivation by converting the oil component of the seed as well as pruned Jatropha biomass into Green Diesel, thereby, giving greater benefit.

NBL strongly believes that its deep rooted desire for long-term success and conviction to deliver sustainable energy can only be met by integrating the multiple stakeholders of the biofuel value chain. We have thus, partnered with the key industry players on all levels – policy makers, national & regional governing bodies, research & technology providers, feedstock developers (including farmers) and off-takers. We aim to provide green energy solutions that are beyond alternative energy sources. Our conviction is to make a difference and bring about transformation in planet, people and profit. We deliver 'Sustainability Solutions' for triple bottom line!

## **CASE – 2: SBA Hydro**

*SBA Hydro partners with local residents in the Himalaya Mountains to develop micro-hydropower stations in India.*

### **SBA Hydro's impact in rural India:**

- The company has developed a customizable, flexible-use hydroelectric turbine and is coupling this technology with a cooperative-based approach to implement village-based hydroelectric projects.



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- The company supplies electricity to remote villages in the Himalayas that previously suffered long periods of blackouts and relied on polluting diesel generators for much of their power needs.
- SBA Hydro meets the electricity needs of over 2,500 rural households, enabling villagers to set up micro-enterprises and crop-processing facilities.

### Market Opportunity:

- 56% of rural households that do not have access to electricity (RGGVY) and there is push by the Indian government to fill the need with renewable energy.
- SBA Hydro was established to harness the underutilized resources of the streams of the Himalayan Mountains to produce clean energy.
- The SBA Hydro team is from northern India, where they saw the rural unemployment not as a problem, but as an opportunity to train local plant operators.

### Unique Business Solution:

Business Model: SBA Hydro partners with local residents in the Himalaya Mountains to develop micro-hydropower stations. SBA trains local staff to plan, construct and operate the station, funds the development of the station and after a period of about 10 years transfers the station fully to the local community. SBA Hydro sells electricity to the national grid.

### Competitive Advantage:

- SBA engineers have more than 40 years of experience in hydropower plant design and construction.
- SBA trains local operators for the hydropower installations, creating a community commitment to operating and maintaining the stations.
- SBA has a strong network within the rural communities and within the Indian government.

### Environmental & Social Impacts:

- Every micro-hydropower station of 100 kW capacity generates about 600,000 kWh of electrical energy every year.
- Each micro-hydropower station trains and employs 10 local stakeholders.

### Successes:

- SBA Hydro group has two micro-power installations in operation, generating a total of 1,200 MWh of electricity every year and providing jobs for 20 local employees.
- From all of their operations, SBA has sold 60 million kWh of electrical energy back to the national grid, increasing the amount of sustainably generated electricity used in India.

### Future Plans & Challenges:

- SBA Hydro aims to establish 10 new micro-hydropower stations every year.



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- Through their decades of experience with the government, they have developed strategies for streamlining their permit process.

### **CASE – 3: Autoboxx Automation Technologies Limited**

The company develops systems that can monitor and effectively manage the energy consumption in buildings, by running utilities optimally.

Autoboxx’s systems can also monitor and keep a track of company personnel and outsourced vendors. The company develops customised automation systems for banks, retailers and telecom providers.

Research has demonstrated that companies are keen to adopt technology that will not only reduce power consumption but also enable better monitoring and control of their geographically disperse branches/sites.

The company’s products include components of:

- Building Management (Monitoring & controlling utilities)
- Security Automation (Intrusion, Access Control, Fire Monitoring)
- Disaster Recovery (Early warning reporting system)
- Web based applications and MIS system for event/outage logging and reporting
- IT enabled helpdesk tool with Escalation Matrix

Target markets include the banking, retail and telecom verticals ranging from 100 sq.ft to 9000 sq.ft sites.

AUTOBOXX is able to develop customised products and services for each customer segment type, ahead of the existing generic building management systems available in the market today.

## **APPENDIX - 3**

### **PUBLISHED REPORTS**

**(Extracts)**

#### **REPORT-1**

##### **Lessons in Sustainability from India’s Entrepreneurs**

**‘Human Bank Machines’:** Thousands of Indian villages are so remote that they have no bank branch, meaning that millions of rupees end up hidden under mattresses instead of in circulation. The Reserve



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Bank of India employs “business correspondents” who serve as traveling bank tellers for these far-flung customers. As of 2011, the bank employed 60,000 correspondents who had opened 75 million bank accounts. The accounts pay about 4% interest, and the correspondents receive a commission on every transaction and earn up to \$200 a month, in a country where the average monthly wage is \$65.

**Hot Lunch Delivery:** More than 5,000 people are employed in the megacity of Mumbai delivering hot, homemade lunches to day workers. The “dabbawalla” — literally, “a person with a box” — doesn’t make the lunch; he picks it up from the worker’s home and delivers it in steel containers, and then transports the empties back home. In 1998, Forbes gave the dabbawallas of Mumbai a six-sigma rating, meaning that they deliver with 99.999999% efficiency. That’s one error for every six million meals. The dabbawallas’ latest competition? American fast-food outlets like McDonald’s, KFC and Taco Bell.

**Amazon, Meet UPS:** E-commerce company Flipkart has made itself into the largest online bookseller in a country where there is no reliable, inexpensive courier service like FedEx or UPS. Furthermore, Indian consumers are leery of buying goods they haven’t laid eyes on. Flipkart solved these obstacles by doing the deliveries itself, letting customers inspect goods before buying, and accepting cash on delivery. Like Amazon, the company is now branching out from books into a larger universe of products.

**Factories without Waste:** Asian Paints, based in Mumbai, is the largest paint company in India and the fourth-largest decorative paint maker in the world. When the government forbids the company from dumping its effluent, the company decided that instead of paying the high costs of disposal, it would figure out how to eliminate its liquid waste altogether. Now the company’s plants produce no discharge and use the recycled water for flushing and gardening. The report quotes Manish Choksi, the company’s chief strategy officer, as saying, “It’s no longer an economic burden.”

**Fair Prices for Farmers:** The bane of India’s farmers has always been the middlemen. Armed with better market data than the peasants, they capitalize on ignorance and pay less for produce than it’s really worth. Enter the Indian conglomerate ITC, which has built 6,500 Internet-enabled market centers in the hinterlands. Dubbed an “e-Choupal,” named after the Hindi word for “village meeting place,” the center gives growers access to the latest commodity prices, weather forecasts, and other useful information. ITC buys crops at the e-Choupal, but farmers can access the data whether or not they sell to the company.

**Cabling Cash by Cellphone** — India has millions of laborers who work far from home and wish to send money to their families. Only 10 percent of villages have a bank branch — but almost everybody has access to a cell phone. EKO Financial Services figured out a clever and nimble method for mobile delivery of small amounts of cash. Every town has a merchant that has a credit or microlending relationship with its customers. EKO leveraged these relationships by making the merchant the local “branch,” accepting and disbursing cash payments through the EKO system. As of 2011, the company had 150,000 customers and worked with 1,500 merchants.

**Power from Rice Waste** — The state of Bihar is India’s poorest, with 85 percent of the people living off the power grid. Its chief crop is rice, which results in another burden: 1.8 billion kilograms of rice husks go to the landfill each year, where they produce methane, a gas that warms the globe. This is the business opportunity of Husk Power Systems, which is developing gasifiers to convert rice husks into electricity. Fifty kilograms of husks per hour can provide a modest amount of power to 500 people. Husk still has its first projects under development but has identified 25,000 sites that could use its power plants.



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## REPORT-2

### National Action Plan on Climate Change

#### The Eight Missions of NAPCC I. National Solar Mission

The ultimate objective is to make solar energy competitive with fossil-based energy options. By **increasing the share of solar energy** in the total energy mix, it aims to empower people at the grass roots level. Another aspect of this Mission is to launch an R&D programme facilitating international co-operation to enable the creation of affordable, more convenient solar energy systems and to promote innovations for sustained, long-term storage and use of solar power.

#### II. National Mission for Enhanced Energy Efficiency

The Energy Conservation Act of 2001 provides a legal mandate for the implementation of energy efficiency measures through the mechanisms of **The Bureau of Energy Efficiency (BEE)** in the designated agencies in the country. A number of schemes and programmes have been initiated which aim to save about 10,000 MW by the end of the 11th Five-Year Plan in 2012.

#### III. National Mission on Sustainable Habitats

This Mission was launched to make habitats sustainable through improvements in energy efficiency in buildings, management of solid waste and a modal shift to public transport. It aims to promote energy efficiency as an integral component of **urban planning and urban renewal** through its initiatives.

#### IV. National Water Mission

By 2050, India is likely to be water scarce. Thus, the Mission aims at conserving water, minimizing wastage, and ensuring more equitable distribution and management of water resources. It also aims to **optimize water use efficiency by 20%** by developing a framework of regulatory mechanisms. It calls for strategies to accommodate fluctuations in rainfall and river flows by enhancing water storage methods, rain water harvesting and more efficient irrigation systems like drip irrigation.

#### V. National Mission for Sustaining the Himalayan Ecosystem

The Himalayan eco-system is vital to preserving the ecological security of India. Increases in temperatures, changes in precipitation patterns, drought and melting of glaciers are obvious threats. The Mission calls for empowering local communities especially Panchayats to play a greater role in managing ecological resources. It also reaffirms the measures mentioned in the **National Environment Policy, 2006**.

#### VI. National Mission for a Green India

The Mission aims at enhancing ecosystem services such as carbon sinks. It builds on the **Prime Minister's Green India Campaign** for afforestation and increasing land area under forest cover from 23% to 33%. It is to be implemented through Joint Forest Management Committees under the respective



State Departments of Forests. It also strives to effectively implement the Protected Area System under the National Biodiversity Conservation Act, 2001.

## VII. National Mission for Sustainable Agriculture

The Mission aims to make Indian **agriculture more resilient to climate change** by identifying new varieties of crops (example: thermally resistant crops) and alternative cropping patterns. This is to be supported by a comprehensive network of traditional knowledge, practical systems, information technology and biotechnology. It makes suggestions for safeguarding farmers from climate change like introducing new credit and insurance mechanisms and greater **access to information**.

## VIII. National Mission on Strategic Knowledge on Climate Change

The aim is to work with the global community in research and technology development by collaboration through different mechanisms. It also has its own research agenda supported by climate change related institutions and a **Climate Research Fund**. It also encourages initiatives from the private sector for developing innovative technologies for mitigation and adaptation.

## 10. ACKNOWLEDGEMENTS

Our sincere gratitude to SMEs entrepreneurs for their whole-hearted responses and sparing valuable time for the same

We convey our thanks to various authors/originators/authorities of articles/reports as mentioned at references.

\*\*\*\*\*

# AN EXPLORATORY STUDY ON THE SUSTAINABILITY OF TOURISM ENTREPRENEURSHIP IN CAMERON HIGHLANDS, MALAYSIA

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## Abstract

Local tourism entrepreneurs in highland tourist areas in Malaysia have been involved in sustainable tourism for decades. Cameron Highlands is one of the entrepreneur communities in Malaysia that are facing several challenges to sustain the local economy and raised the attractiveness of the place as tourist destination. As one of the highland tourist areas it has instituted a self-sustaining tourism economy through an intensive agricultural program by clearing large tracts of pristine forests for intensive farming, both for food crops and flowers. The study shows that there are issues affecting the degradation of land, the usage of environmentally-damaging sustainable farming methods and threats to production. Thus, the objective of this paper is to gain insights on the challenges and issues facing the local entrepreneur community in Cameron Highlands and to assess its relationship between entrepreneur characteristics, conditions and its resources in order to ensure its sustainability as a tourism area. An exploratory research approach will be applied on the perceptions of the local entrepreneurs and tourist operators. Detailed observation and interviews will also be conducted with the local administrators, farmers association, tourism agencies, NGOs and local people to attain the overall scenario on current business situation. It was noted that most of the tourism businesses in Cameron Highlands are owner-managers of family-owned Small to Medium Tourism Enterprises (SMTEs) and they try to stay up-to-date with the activities of their competitors and strive to exercise strict control of the quality of products or services. It is recommended that greater support be provided to family of SMTE's to play a considerable role in promoting the economic development of tourism in Malaysia highland tourist area.

**Keywords:** tourism, sustainability, entrepreneurship, SMTE, economic development, Cameron Highlands.

## 1. Introduction

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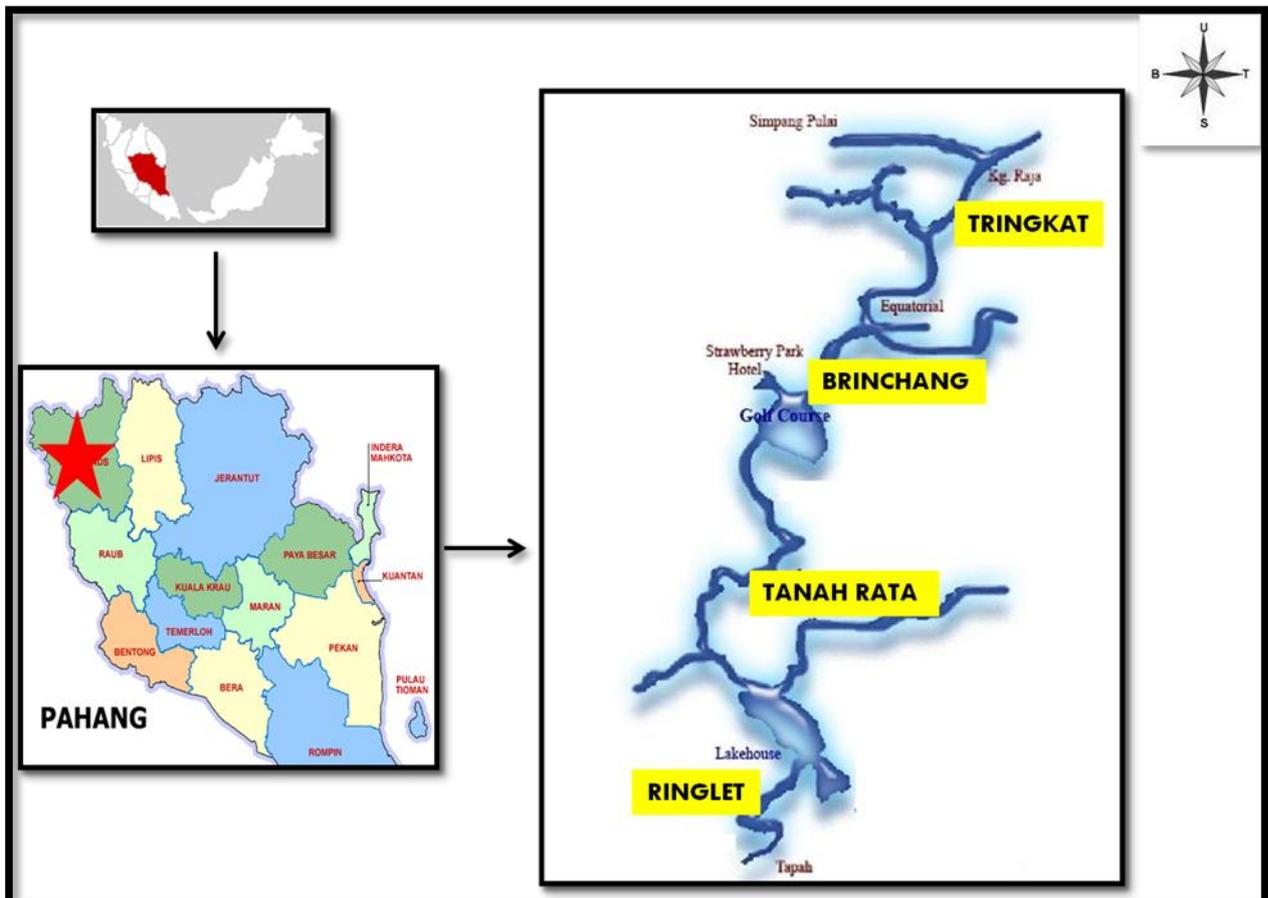
According to Tourism Malaysia (TDC, 2011), the number of international tourists arrivals in 2010 accounted for 24.6 million with a total receipts of RM17.9 billion. The State of Pahang got a market share of 4.1 million tourists of which Cameron Highlands District (CHD) situated in Pahang got around 1.1 million tourists. CHD is one of the fast growing highland tourist areas in Malaysia which has been involved in sustainable tourism for decades. As one of the highland tourist areas it has instituted a self-sustaining tourism economy through an intensive agricultural program by clearing large tracts of pristine forests for intensive farming, both for food crops and flowers. This study illustrated some of the major issues affecting CHD in terms of the degradation of land, the usage of environmentally-damaging sustainable farming methods and threats to production. And therefore, one of the main focus of this study is to gain insights on the challenges and issues facing the local entrepreneur community in sustaining the local economy and raised the attractiveness of the place as tourist destination. An exploratory research approach was applied on the perceptions of the local entrepreneurs and tourist operators and a detailed observation and interviews has been conducted with the local administrators, farmers association, tourism agencies, NGOs and local people to attain the overall scenario on current business situation. It was noted that most of the tourism businesses in Cameron Highlands are owner-managers of family-owned businesses at the scale of Small to Medium Tourism Enterprises (SMTEs). The prospect of growth of CHD is clearly highlighted in the Local Plan of Cameron Highlands District (2003-2015) (MDCH, 2003), growing and they try to stay up-to-date with the activities of their competitors and strive to exercise strict control of the quality of products or services. The support by the government to foster local economic development of CHD to the family of SMTE's to play a considerable role in promoting tourism in Malaysia's highland tourist area is to be reckoned with.

## **2. Background of Study Area : Cameron Highlands District**

The location of CHD as highland tourists are is approximately 20km. from Ipoh, a former tin mining town and 220km. from Penang, an island tourist centre, and 220km. from Kuala Lumpur, the commercial capital of Malaysia. It is strategically located at 1,500m. (5,000ft.) above sea level, enjoying a cool climate, with temperatures below 25°C and sometime can dropped to 12°C. Cameron Highlands inherit the name of William Cameron, the surveyor who mapped the area in 1885 and became a tea plantation, vegetable farming and a cool place for retreat for British Colonial Government (BCG) officers. CHD covers an area of 71,218 hectares with more than 70% of pristine forest was designated by BCG as the largest hill resorts in Malaya (Malaysia) in 1957. Later CHD became famous for agriculture produce and resort development and recreational purposes for tourism, a policies reiterated in the Local Plan of Cameron High lands District, also known as Cameron Highlands Local Plan (CHLP).

With the completion of three major roads linkages, *i.e.* North - South Highway and Federal Roads II via Tapah, Jalan Simpang Pulai/Ipoh –Lojing / Gua Musang, and Jalan Lembah Bertam–Kuala Lipis, CHD will be well connected and encouraged flow of tourists that could enhance the local economic and business opportunities that will generate incomes to the local communities.

**Figure 1: Study Area on Cameron Highlands**

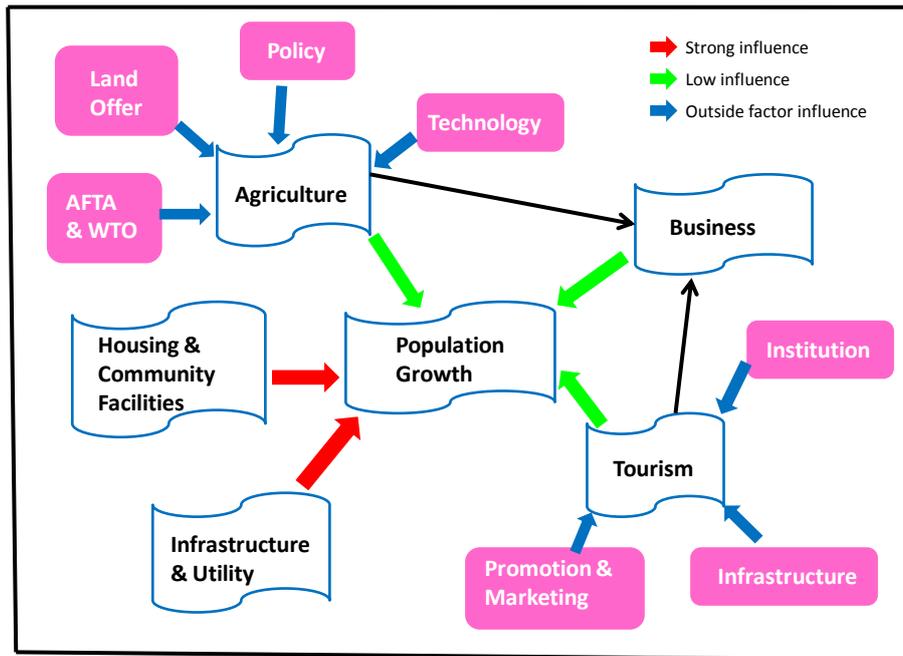


Source: <http://www.dromoz.com/directory>

The distribution of study areas comprised of four major centres of namely Ringlet, Tanah Rata, Brinchang and Tringkat which accessible from Simpang Pulai and Tapah with a distance of approximately 47km. from both sides. The total population of CHD in 2010 was 32,500 people and expected to grow to 38,500 people by 2015 with large concentration at Tanah Rata (35%) and Brinchang (30%) (Majlis Daerah Cameron Highland, 2011). The impacts of population growth to Cameron Highlands' socio-economy can be illustrated as in Figure 2 that tourism is one of the contributing factors apart from agriculture. These two sectors play a major role in enhancing CHD local economy and its sustainability despite pressure from other sectors, such as housing and commercial development.

**Figure 2 – Impacts of Population Growth to Cameron Highlands’ Economy**

Socio-



Source: Rancangan Tempatan Daerah Cameron Highlands 2003 – 2015.

### 3. Development Potentials of Study Area

The Local Plan of Cameron Highlands focused its development in three sectors of high priority, such as manufacturing of available resources & services, tourism & its related services, agriculture & natural-based industry. CHD is planned based on the principle of a balanced development and sustainable development to accommodate the growing population from 30,495 (2000) to 35,500 (2010) and 38,500 (2015) with a growth rate of 1.55% per annum (2000-2015) and by taking into consideration its socio-economic prospects based on the ecotourism and agro-tourism development.

**Figure 3 – Population Growth Scenario 2000 – 2015**

| 2000 | 2005 | 2010 | 2015 | Growth Rate (%)<br>2001-2015 |
|------|------|------|------|------------------------------|
|      |      |      |      |                              |

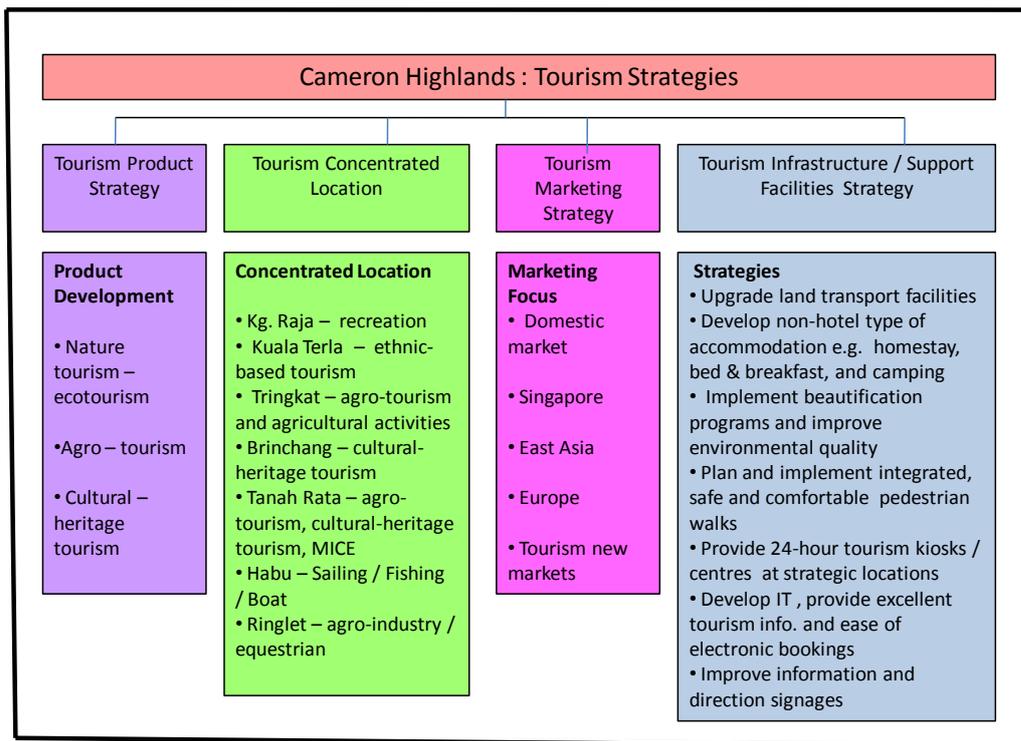
|        |        |        |        |      |
|--------|--------|--------|--------|------|
| 30,495 | 30,770 | 30,940 | 31,030 | 0.21 |
| 30,495 | 31,700 | 32,500 | 32,580 | 0.46 |
| 30,495 | 33,000 | 35,500 | 38,500 | 1.55 |

*Source: Rancangan Tempatan Daerah Cameron Highlands 2000 – 2015.*

An analysis on CHDs' physical, social and local economic aspects indicates that it has enormous potentials for tourism growth based on several factors, which includes cool climate and hilly area allows vegetation to grow in abundance and turns CHD as main producer of vegetables and flowers. The mountainous area make it rich in unique flora and fauna, its rivers, dams, mountain peaks, waterfalls and forests for ecotourism development. Agriculture farms with flower beds, vegetation, bee farms and places for selling of agricultural produce as attraction for agro-tourism. Due to its topographical conditions some areas of sensitive to soil erosion cannot take on development which is of high intensity and on mega scale and therefore, the principle of sustainable development becomes the guidance of the overall tourism industry. Natural area consisting of gazetted forest reserve, dams, water catchment areas and gazetted rivers, has to be preserved and no development is allowable to avoid negative impacts to the environment.

#### **4. Tourism in Cameron Highlands**

At the national level, the objective of the tourism industries is to increase the national income through tourist arrivals. The study on domestic tourism shows that in 2010 the domestic visitors (excursionist and tourists) spent a total of RM34.7 billion, as against RM26.0 billion spent in 2009 (Statistic Department Malaysia, 2011). The amount spent in CHD in 2010 was about RM114million by domestic visitors, an average of RM500 per trip made by both foreign and local visitors. At the same time, it is stressed that tourism development has to take into account the protection of the environment and to provide positive impacts to the local inhabitants as well as to prevent environmental degradation. The CHD development strategy of sustainability is illustrated in Figure 4.



Among other strategies for tourism development in CHD are to increase earnings of the tourism sector by encouraging long-term stay, to increase spending and repeat visitation, to increase employment opportunities for locals to improve family incomes by establishing local business enterprises and to involve in tourism industry by setting up chalets and home stay (bed and breakfast). Figure 5 shows the distribution of local businesses carried out by local community in CHD. It is expected that by 2015 there will be 2,250 units of business premises with a total floor area of 41,700 meter square and 68% of it in Brinchang (28,400 sq.m).

**Figure 5 : Establishment of Local Business Enterprises**

| Establishment by Location | Retails   | Restaurants | Fruits & Vegetables | Food Stalls | Hotels & Chalets | Agro Operators | Services   |
|---------------------------|-----------|-------------|---------------------|-------------|------------------|----------------|------------|
| Kg. Raja                  | 11        | 11          | 0                   | 3           | 4                | 10             | 10         |
| Kuala Terla               | 8         | 9           | 0                   | 2           | 8                | 1              | 11         |
| Kea Farm                  | 5         | 5           | 53                  | 18          | 0                | 19             | 10         |
| Brinchang                 | 18        | 43          | 3                   | 22          | 14               | 57             | 2          |
| Tanah Rata                | 13        | 53          | 2                   | 4           | 39               | 24             | 36         |
| Lembah Bertam             | 8         | 10          | 0                   | 0           | 0                | 5              | 9          |
| Ringlet                   | 28        | 31          | 5                   | 15          | 25               | 14             | 37         |
| <b>TOTAL</b>              | <b>73</b> | <b>162</b>  | <b>63</b>           | <b>64</b>   | <b>90</b>        | <b>130</b>     | <b>115</b> |

Source: Structure Plan of Cameron Highland, 2003-2015,

As this paper focuses on the sustainability of tourism entrepreneurship in Cameron Highlands, we have approached the CHDC to find out what are the strategies being put in place to ensure sustainability of the tourism businesses in the district. In its local planning, the following implementation programs for tourism products development is clearly defined in the local plan of CHD (2003-2015). One of the main focus is to strengthen the agro-tourism sector associated with cultural and heritage tourism. The Malaysian government, through the 9<sup>th</sup>. Malaysian Plan, has opened opportunities for farmers to expand and diversify agricultural products and their related industries, such as agro tourism. The importance of local participation in tourism was also stressed in the 7<sup>th</sup>. Malaysian Plan 1996 to 2000. Cameron Highlands was chosen as the study area, because it is a well-established Malaysian, agro tourism destination. Cameron Highlands is also regarded as a well known and principle tourism location, in Malaysia (Wells, 1982).. Thus, Cameron Highlands is considered as the most suitable agro tourism destination in the country, to conduct a study.

### **Development of Local Business**

With the rapid development of tourism businesses in recent years, it was initially developed purely for tea plantations. Since tea was one of the valuable trade items at that time, higher demand from western countries was received. Therefore, mass tea plantations were started. Gradually, other forms of farms, such as vegetables, flowers and fruits, developed as well. The increasing number of tourists arrivals in Cameron Highlands from 364,930 (2000) to 485,722 (2005), to 782,260 (2010) and expected to grow to 1,022,825 (2015) at a rate of 6.5% growth rate per annum saw a great opportunities to local businesses (District Council of Cameron Highlands, 2012).

With abundant of tourist attractions in CHD, it has the capability of catering to various types of tourists which range from tea plantations, rose and cactus valleys, strawberry and water-cress farms, honey bee and butterfly gardens, multi-crops central market, agro technology & agro tourism parks, jungle walks, camping and various outdoor activities. Figure 6 illustrate the distribution of tourist attractions in CHD. From the observation on the characteristics of visitors, a large proportion were of middle age people appreciating the green and cooling environment walking along the forested area. Main concentration of activities are in Tanah Rata and Brinchang where rows of shops and eating stalls being patronized mostly by domestic visitors. Cameron Highlands is an agro-based tourism area with 2,376 farms scattered around CHD. Figure 7 shows the number of farmers at two major centre of operation in CHD.

**Figure 7. Total Number of Farmers in Cameron Highlands until 2010**

| <b>Farm Areas</b> | <b>Hulu Telum</b> | <b>Tanah Rata &amp; Ringlet</b> | <b>TOTAL</b> |
|-------------------|-------------------|---------------------------------|--------------|
| No. of Farms      | 1,473             | 903                             | 2,376        |
| Percentage (%)    | 62.0              | 38.0                            | 100.0        |

*Source: District Council of Cameron Highlands, Pahang (2010)*



**Figure 6: Distribution of tourist attractions in Cameron Highlands**

Source: <http://holidayinmalaysia.org>

An analysis on the observation made pertaining to local businesses can be illustrated according to tourism products available in CHD and made possible by the local community to sell these products as listed in Figure 8.

**Figure 8 : Products Initiated by Local Community in Cameron Highlands.**

Strawberry farms offer locally grown strawberries and homemade strawberry jams at a very cheap price distributed at few places, Big Red Strawberry Farm, Healthy Strawberry Farm, Kasimani's Strawberry Farm, KHM Strawberry Farm, Raju's Hill Strawberry Farm

**Straw berry Farm**



**Vegetable Farm**



**Vegetable Farm**

**Local agriculture produce**



One of the main activities that attracts visitors to Cameron Highlands



Vegetable farms are located throughout the highlands and most of the farms allow visitors in. Drive up to Tringkat or Kuala Terla to get a roadside view. Due to the increasing tourist arrivals, there have been smaller farms cropping up all over the highlands. These farms produce everything from flowers and vegetables to strawberries

**Hydroponic Vegetable Farm (Greenhouses)**



### Stalls selling local produce to visitors

There are open air markets selling vegetables, fruits and delicious snacks takes place daily.



**Honey Bee Farm** There are few honey bee farms in the highlands where visitors can get to learn about bees and honey production



Source: Tourism Malaysia

## 5. Conclusion

The study basically found out that agro tourism generates more income for farm operators and also increases their land value. Most of the local community, which is agro-based community think that agro tourism business will bring additional incomes and strengthens the local economy of Cameron Highlands. Most of them felt that tourism provides enough good jobs to the local community to be involved, especially in running small businesses and agro tourism business. Since they have being involved in agro-based business from generation to generation, they felt contented with what they experience in running small enterprises as number of visitors are increasing over the years. They gained more benefits from tourism visiting Cameron Highlands, especially during peak seasons of school holiday and festivals. To local community agro tourism is a business based on agriculture and sustainability of natural environment must be adhered to by local government agencies not to over developed Cameron Highlands as a highland tourist destination in Malaysia.

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# AN ASSESSEMENT ON THE COMPETITIVE ADVANTAGE OF HEALTH TOURISM IN MALAYSIA

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## **Abstract:**

Globalization has made health tourism possible and continues to flourish. This new industry takes in billions of dollars a year, an opportunity to reckon with and to be developed in Malaysia tourism industry. The objective of this paper is to assess the significant contribution of health tourism in Malaysia and its challenges in securing this multibillion dollar industry. The methodology used in this assessment is compilation, data review and comparison from annual report, action plan and articles. Among the ASEAN countries, Malaysia is making a mark in the health tourism industry due to accessibility to medical and technical specialists, high quality infrastructure, land of scenic beauty, political and economic stability. Thus, the current situation and future prospects of health tourism in Malaysia need to be strategized carefully to cater for the emerging medical tourism as well as to overcome some of the key issues which need to be addressed, such as promotion, finding the niche market, immigration and the service quality. It is a great challenge to explore Malaysia potential of becoming dominant provider in the health tourism industry in this region despite its competitive advantage over neighbouring Thailand and Singapore, and India is a subject matter of this study.

**Keywords :** health tourism, service quality, tourism industry, immigration, ASEAN

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## INTRODUCTION

The linkage between medical and tourism is widely developing in spurring the economy growth. While it is impossible to predict the future of medical tourism with absolute certainty, there is an evidence to suggest that it will continue to grow in both developed and developing countries. An analysis of the tourism literature indicates that tourism in the future will be increasingly flexible, segmented, customized and diagonally integrated rather than the mass, rigid, standardised and packaged that are still often experienced today.

Medical tourism is a general term that describes patients traveling to obtain health services. The growth of medical tourism is due to a broad range of motivators and increasingly, developing countries are seeking to capitalize on these flows and are linking medical care with actual tourist activities. Medical tourism is a relatively recent global economic and political phenomenon which has assumed increasing importance particularly in Asia. In order to realize the full potential of the industry, it is essential for these destinations to develop a strategic plan for coordinating various industry stakeholders- the medical practitioners, private and public hospitals, policy makers, hotels, transportation services and the tour operators.

Efforts aimed towards regulating the regional medical tourism industry—in whatever form they may take—will undoubtedly face significant challenges. For one, government bodies have limited abilities to enforce regulations in jurisdictions beyond their national boundaries. Coupled with the fact that people with the necessary travel documents are free to travel internationally, it is thus unlikely that legislation enacted within Malaysia could have a significant impact on the actions of both Malaysian medical tourists abroad as well as foreign health systems. This premise is based on the assumption that medical tourism is a business that happens exclusively abroad. We note, however, that this is not always the case. Medical tourism is similar to many contemporary industrial sectors in terms of globalization (Horowitz, Rosensweig, & Jones, 2007), defined here as *the growing interconnectedness of transnational economies*. Many companies strategically fragment their operations, such that a head office will reside in a nation with, say, a well-developed infrastructure, while its manufacturing sector may be outsourced to a nation with lower labour costs. Though medical procedures and health services are typically performed abroad, important sectors of medical tourism companies (e.g., administration), do exist on Penang soil.



Several key factors have been suggested to explain the growing phenomenon of medical tourism within the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). IMT-GT is a sub-regional cooperation initiative formed in 1993 by the governments of Indonesia, Malaysia, and Thailand to accelerate economic transformation in less developed provinces. Since its formation, the IMT-GT has grown in geographic scope and activities to encompass more than 70 million people, including: soaring healthcare costs in some industrialized nations, notably the United States, EU countries; longer wait times for medical procedures in countries such as Canada and the United Kingdom; and desire to gain access to services that are unavailable locally, such as innovative surgical techniques not yet approved by public or private insurance schemes. These come into consideration for Penang due to its competitive advantages which will be discussed in this paper.

The objective of this paper is to gain insight of how competitive advantages have developed Penang to be a medical tourism destination in the region. Detailed research on existing competitive strategy frameworks will be applied to evaluate on Penang's healthcare market segment. This paper explores the competitive advantage against rivals of Penang and offers practical help to researchers and practitioners in providing a direction for sustainable improvement in medical tourism. Medical tourism is a new term but not a new idea; patients have long travelled in search of better care. There are various reported instances of ancient pilgrims and patients flocking Greece, to the sanctuary of the healing God. Affluent Europeans are reported to visit health resorts in North Africa as early as the 18th century. Cross border travel for health reasons is a \$40 billion market and growing at over 15% a year, thus promising to open new vistas for the uncanny to tap it (Pooshan, 2011).

### **PENANG-THE MEDICAL TOURISM HOT-SPOT**

Medical tourism in Penang is one of the best options available to people within IMT-GT. IMT-GT is formation of three countries namely Indonesia, Malaysia and Thailand in 1993 as to speed up economic transformation. It includes 14 provinces in southern Thailand, 8 states of Peninsular Malaysia and 10 provinces of Sumatra in Indonesia. Millions come every year to get treated and then enjoy their recuperative holidays across Penang. People from different

walks of life cut across the entire span of the IMT-GT to come to Penang to have their treatments done with a peace of mind. Penang provides world class medical facilities with hospitals and specialized multi specialty health centres providing their expertise in the areas of cosmetic surgery, dental care, heart surgeries, coronary by-pass, heart check up, valve replacements, knee replacements, eye surgeries, Chinese traditional treatments like acupuncture therapies and much more, practically covering every aspect of medicine combining modern treatments with traditional experience.

With Penang having captured 57% of the medical tourism receipts for Malaysia in 2009 and 66% in 2010, the state government is aiming to develop and promote the state as a medical city in the region. The primary reasons as to why medical tourism would flourish in Penang include much lower medical costs for various ailments such as by-pass surgery, knee surgery and full medical check-up as compared to other places. As a result of higher and very expensive medical costs in the western countries, patients from countries including Indonesia, Thailand and various Asian countries have started exploring medical treatment in hospitals on the basis of economies of scale in Penang because its medical infrastructure has geared up to provide them non-subsidized medical treatment at comparatively much lower costs. It is from here that the competitive advantage of Penang establishes.

### **PENANG AIMING TO BE MEDICAL CITY**

As the market is close to Thailand and northern Sumatra, this competitive advantage is like a gold-given in competing with places like Singapore. Furthermore, Malaysia was named as one of the top five medical tourism destinations in the world by The Hotel Resort Insider in 2010. According to the source, the healthcare services provided in Malaysia, which cover a full and extended range of secondary and tertiary medical specialities are of equal standards, but comparatively cheaper than in the US, Europe and other developed countries.

Penang has more than 10 private hospitals, of which seven have formed a consortium – Penang Health Association – to jointly promote medical tourism in Penang. Even though separate business entities, they are compatriots in promoting Penang as the destinations of choice for medical tourism. The Penang Health Association has been promoting Penang as a medical hub rather than promoting the individual hospitals to potential patients from the ASEAN regions. The hospitals have been participating in road shows and exhibitions outside Malaysia, promoting Penang as an affordable and quality healthcare destination. Medical City not only provides medical and healthcare services, but it also offers an extensive range of services covering arrivals, airport transfers to and from hospital, lodgings for patient's family, treatment, transportation, tour packages for family members, recuperating and a host of other post treatment services.

In order to provide a complete and interdependence range of services, a cooperative competition approach is adopted to involve all related entities of the services industry. Meaning to say the various sectors of the services industry namely tour operators, hospitals, hotels, serviced apartments, transport operators, restaurants and food caterers and other related services providers have to pool their resources to make the Medical City concept a reality.

## WHAT BRINGS THE COMPETITIVENESS FOR PENANG

The rationale for proposing a framework of competitiveness that focuses specifically on the medical tourism sector is based on the nature of the 'product', which from a destination perspective can be regarded as "an amalgam of individual products and experience opportunities that combine to form a total experience of the area visited" (Murphy, Pritchard & Smith, 2000). Murphy *et al* (2000) conceive a destination product as consisting of a set of core benefits that are delivered through a tourism infrastructure that can be managed directly; and by environmental factors - some of which may be influenced by public policy.

From a tourism destination perspective competitive advantages should be considered when considering competitiveness. Competitive advantage would relate to such created items as health and medical care stations, heritage/ historic attractions, events, transport networks, government policy, the quality of management and skills of workers. In the context of tourism, competitive advantages are important and a model of destination competitiveness must recognize this (Crouch & Ritchie, 1994). Crouch *et al* (2000) suggest that the most competitive destination is one that brings about the greatest success; that is, the most well-being for its residents on a sustainable basis. They also apprehend that "*competitiveness is illusory without sustainability*". Thus, to be competitive, a destination's development of medical tourism must be sustainable, not just economically but socially, culturally, politically and ecologically, as well. It can, therefore be argued that the most competitive destination is the one that most effectively creates sustainable well-being for its residents. They further opine that irrespective of the definition used, the notion of competitiveness seems to involve "*a combination of assets and processes, where assets are inherited (e.g. natural resources) or created (e.g. infrastructure) and processes transform assets to achieve economic gains from sales to customers*".

The key factors affecting destination competitiveness provide an essential base for competitiveness as proposed in the wider literature and the main indicators of destination competitiveness spelt out by various tourism researchers such as Crouch *et al* (2000). The author has tried to incorporate inputs from the currently available literature on destination competitiveness reiterated on the competitive destination: a sustainability perspective. We have tried to provide an integrated treatment of the various issues surrounding the concept of 'competitiveness', in light of the recent global shifts in the field of medical tourism and its implications on destinations like Penang. We have, at the same time tried to analyze the leading medical tourism destinations like Singapore, Malaysia, Turkey and India on the basis of their competitive advantages as medical tourism destinations. Despite the extensive literature on competitiveness, there is no framework to portray the international destination competitiveness of a medical tourism destination. Poon (1993) suggested four key principles which a destination must follow if it wants to be competitive:

- Put the environment first
- Make tourism a leading sector
- Strengthen the distribution channels in the market place and
- Build a dynamic private sector

Another study done by **Go and Govers (1999)** measured the competitive position of a destination relative to other destinations along seven attributes-

- Facilities
- Accessibility
- Quality of service
- Overall affordability
- Location image
- Climate and environment and
- Attractiveness

The author, thus, having undertaken a study of the various models proposed by different researchers zeroed in to the main determinants of destination competitiveness, specific to Penang and conceding that although there is no formula that can guarantee sustained competitive advantage, certain behaviours have shown to make success more likely, has tried to analyze these behaviours to propose a practicable.

### **MEDICAL TOURISM IN PENANG: SWOT ANALYSIS**

We would like to look into competitive advantages of Penang from the viewpoint of SWOT analysis. Penang and other places wishing to succeed in health tourism must study the environment and implement strategic management process to maximize the potential of existing assets and hence maximizing the gain. Discussed below are the some of the identified strengths, weaknesses, opportunities and threats (SWOT) for Penang.

#### **Strength**

The labour cost in Malaysia is relatively low. According to the Malaysian Medical Council, the average basic monthly salary ranged from RM2,769 (US\$781) (executives) to RM10,105 (US\$2,851) for senior managers to RM16,793 (US\$4,730) for top executives.

Low labor cost will result in very affordable price of medical treatment. This is an attractive bargain for medical tourists to this country, as the remaining money can be used for leisure activities such as shopping and sightseeing. Penang has already established itself as a tourist destination. Penang is famous for its beautiful scenery, diverse culture and modern cosmopolitan city can be a very appealing place to recuperate. Strong promotional strategies and activities can ensure Penang becoming not only a tourist destination but also a world class medical hub.

Confidentiality is a very important and sensitive matter when it comes to medical treatment especially those relating to cosmetic surgery or any other form of plastic surgery where discretion is extremely important. Medical tourism is an excellent solution to this problem. With an excuse as simple as having “holiday in the tropics”, one can undergo medical treatment as a medical tourist without having to raise any suspicion among family and friends. Malaysia being a great distance away from Europe and North America is an

attractive destination for patients from these countries to acquire treatments such as cosmetic surgery and even addiction treatment. Malaysia also has a strict standard of practice on patient confidentiality set out by the Malaysian Medical Council (G Harris, 2008).

English language is used widely in Penang, making it easier for tourists to communicate with the health professionals. In fact, this multilingual ability of our healthcare workers has been cited in an article by an international journalist, Greg Harris of the magazine Malaysian Business (2007):

“...Another advantage in Malaysia's favour is language, with English being the lingua franca and doctors who are able to converse in Bahasa Malaysia, Mandarin and Tamil, thus catering to visitors from Indonesia, China and India”.

### **Weaknesses**

Weaknesses include the lack of impressive promotional activities and customer service, unlike those in countries such as Thailand and India. In Penang, impressive websites and portals detailing medical and social services are sadly lacking. Penang also seems to lack focused provision of medical treatment, or branding. Branding is key to marketing, as pointed out by Philips Malaysia Chairman and Chief Executive Officer Dr. Rajah Kumar, whose company aims to play an enabling role in promoting medical tourism in the country, “...we need to brand the sector so medical tourism in Malaysia can be known worldwide like in Thailand” (H Marjuni, 2008).

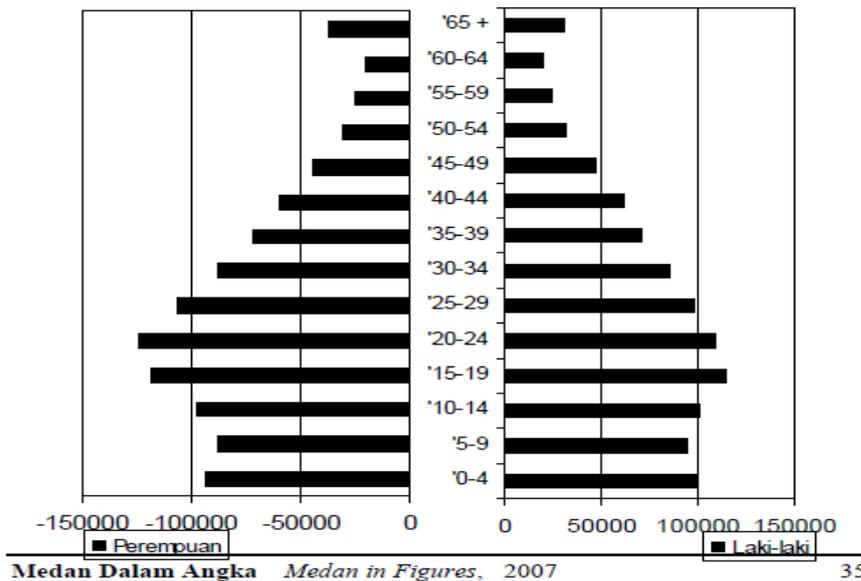
Other weaknesses include the inconvenience of obtaining extension of the social visit pass. The procedures for extension of the social visit pass not only for Penang but for the whole of Malaysia are tedious. Apart from being required to complete an application form, the applicant must submit it along with his/her passport and confirmed flight ticket to the home country, in person. Obviously such requirements may impossible to fulfill by a person recuperating in a hospital bed, such as in the case of a medical tourist (Deloitte Center for Health Solutions, 2008)

### **Opportunities**

According to a survey, there are about 2.1 million total populations in the Kota Medan alone. Of this in 2007, 50% are at the age range of 14 to 39 years old. Due to lack of medical expertise and resource, more of people from Medan are travelling to Penang for the health care. Naturally, with lower price and a holiday package included, medical tourism is one of the better alternatives in getting the medical care they need. Waiting time to obtain medical attention has also become a huge problem in Indonesia. We are only looking into Medan district in this example. Meaning to say the opportunity is vastly fulfilling Penang to be the medical hub in the region.

|                                  |
|----------------------------------|
| City of Medan Population Pyramid |
|----------------------------------|

Gambar 3.2 Piramida Penduduk Kota Medan



### Threats

Penang faces many “threats” in the health tourism industry. Among them are competition from neighbouring countries, caution about the quality of treatment and communicable diseases such as the H5N1 viral infection and dengue. Coronavirus which gives rise to Sudden Acute Respiratory Syndrome (SARS) shocked Asia in 2003 when the virus infected 1,755 people in Hong Kong, and killed 299. The economy nose-dived as investors and tourists stayed away. Consequently economists pessimistically forecasted that the region’s economy would deteriorate due to this SARS outbreak and its lingering presence (YC Lim et al, 2007). Indonesia is still suffering from SARS, and according to the WHO website, the latest casualties were reported at the end of February 2008, with 129 confirmed cases and 105 of which have been fatal. There have yet been any reported cases of SARS in Malaysia and no data is publicly available on Thailand, but the proximity of Indonesia to this country and the fact that citizens from both countries travel freely between these nations makes the risk of spread is ever present.

### ROADMAP UPON SWOT ANALYSIS



To simplify the competitive advantages that Penang upholds, it is needed to put them into practicable input by proposing few milestones. The strategies will be implemented by transforming the weaknesses and threats to strengths and opportunities respectively. Finally, the strengths must match against the opportunities.

**Milestone 1**

Every medical tourism related business including public and voluntary sectors shall be strongly encouraged to become part of the State Tourism Board’s specially formulated, where they will be supported in raising their standards, consonant with global benchmarks.

**Milestone 2**

Provide for the best regarded medical tourism workforce in the world, comprising highly skilled doctors, managers and supervisors who are employee and customer friendly and are empathetic too; this would result in better employee experience, which, in turn, will foster better customer experience.

**Milestone 3**

The state government shall provide support for promotion and development of events specifically aimed at tapping the medical tourists; these may be organized at important global locations, with an eye to attract the cost-conscious patients from industrialized countries, with the assistance of travel organizers and tour operators.

**Milestone 4**

The State government will develop linkages with other medical tourism service providers to promote Penang to its target audience through many different channels to increase the reach

of its communications. It will explore the use of new media like podcasting to sell Penang as a vibrant recuperative destination.

## **CONCLUSION**

Penang's medical tourism has a sustainable competitive advantage if it can maintain the advantage in the face of continuous imitative threats from competitors. Whilst the process through which competitors destroy the competitive advantage of market leaders is slow, understanding the factors that impact on the rate of imitation (and therefore sustainability) of a given competitive advantage is one of the critical issues faced by Penang. The authority must give careful consideration to the current and potential isolating mechanisms that protect their positional advantage from imitation.

A competitive advantage is meaningful in strategy only when three distinct conditions are met: (1) Medical tourists perceive a consistent difference in important attributes between the Penang's medical product and service and those of its competitors and (2) that difference is the direct consequence of a capability gap between Penang and its competitors.

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# AN INTEGRATION MODEL IN ACHIEVING A SUSTAINABLE ENTREPRENEURSHIP

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## Abstract

**Objectives:** This paper discusses a proposed framework for achieving sustainable entrepreneurship. Correlation analysis is presented in supporting the proposed integral process in sustainable entrepreneurship framework. An integration model consisting statistically significant correlation elements is proposed for achieving sustainable entrepreneurship.

**Theoretical Background/Previous Practice:** The concept of strategic thinking, strategic management and planning is emphasised and adopted in developing entrepreneurial-minded owner-managers to be ready, sustainable, competitive and success in business.

**Approach/Methods:** The proposed conceptual framework yielded from academia and entrepreneurs meetings and relevant studies highlights the effective elements in determining competitiveness and success to enterprises; these are comprised of shared vision, management, teamwork, leadership, performance analysis and reviews. In order to find the answer of how significant those factors for sustainable entrepreneurship, the quantitative research has been used. Two types of surveys have been applied in the research, questionnaires and interviews. Statistical analysis using SPSS was based on the participants' answers of the questionnaires which were distributed to 156 participants from various businesses background. Pearson product moment correlation coefficient from SPSS tools has been used to describe the relationship between two variables. Regression analysis from SPSS tool is used to find the best predictor of sustainable entrepreneurship.

**Results/Insights:** The results show significant correlation between the discussed factors and entrepreneurship sustainability. Results from regression analysis demonstrate that high performance team is the best predictor of sustainability enterprise.

**Implications:** This paper gives a guideline and awareness of the integrated factors from strategic thinking and management point of views are important and need to be applied in every growing enterprise. It should be stressed here that concentration to only single factor and ignoring the importance of other factors will not bring success and sustainability to enterprise, thus it has to be taken as integral process in entrepreneurship framework.

**Keywords:** Sustainable enterprise, entrepreneurship, strategic thinking, strategic management.

## **1. Introduction**

Internationally, thousands kind of business are created, growing and expanding in every country with no time boundaries. However, to sustain in the business world the company needs to have a strategy and innovative to maintain the business growing well in the competitive world.

An integrated formula for a successful model in business always 24 ehavior 24 i the appreciation, inculcating and sharing values and assets in an 24ehavior24ion or enterprise. This encompasses human capital and resources, management and networking. Human capital is strengthened simply by the attribution of values which form a positive culture, for instance respect among staff, teamwork, sharing ideas and goals that bring success to the company. Employees' good values and 24ehavior can be considered as a kind of raw quality asset in producing high end quality product which promises great sales.

Competitiveness in business needs internal values of employees, such as innovation, energy and enthusiasm in striving for excellence and supporting their companies' vision and goals. The talent pool within human capital management includes leadership skills and training which are also important factors in achieving a sustainable enterprise (Collings and Mellahi, 2009).

Resilience in business performance is guaranteed by human capital/assets with high skills and commitment. Communication is also a significant contributor to achieving enterprise goals (Bill and Cal, 1998). There are the accepted means to achieve shared goals in order to succeed in any enterprise.

Business is associated with trend, e.g. life-cycles in term of products, profits, and tapping into people-skills. Business is also associated with uncertainty (Jones and Butler, 1992). However, these can be expanded towards sustainability through strategic planning, leadership and succession planning, human capital development and management. This includes direction being set as well as vision, forecasting, commitment and accountability.

It is always being demonstrated that a company's winning formula includes excellent service and quality products (Foster, 2001), for instance, Motorola and Xerox adopted total quality management in achieving high quality products to compete with Japanese companies (Melsa, 2009). Those criteria can only be achieved through comprehensive planning, process monitoring and evaluation. Feedback management and analysis tools such as 360° feedback and SWOT analyses contribute to the improvements needed to become a sustainable enterprise.

## **2. Theoretical Framework of sustainable entrepreneurship**

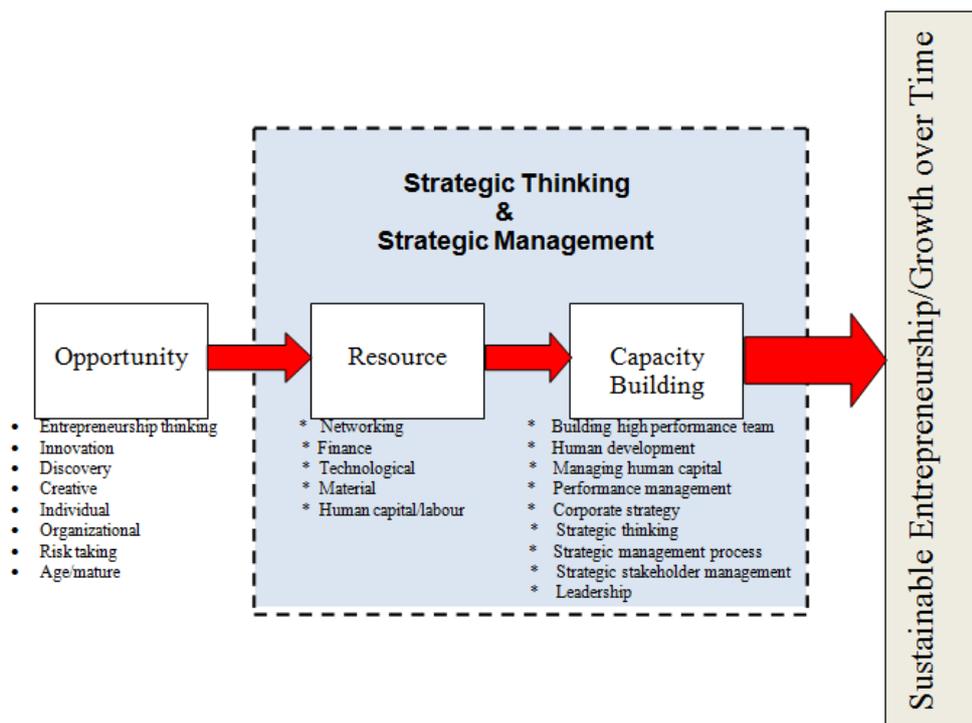
This paper provides a way of understanding on the concept of entrepreneurship, the significant components and processes for a theoretical framework. It has been designed based on relevant research, empirical studies and ideas in the field of strategic thinking, management, personal and organizational approaches.

Entrepreneurship is defined as a process that takes place in different environments and circumstances and causes changes in the economy through innovations, which are created by individuals recognizing economic opportunities creating value both to these individuals and society (Muzyka, De Koning and Churchill, 1995; Barringer and Bluedorn, 1999). More precise definition is given by Christensen et al (1994) which encompassing opportunity and resources. They defined entrepreneurship as opportunity driven, with an ability to make commitment to opportunities for business, using people's resources and managing through networks, and with the expectation that one will be rewarded as a result of the new value created (Christensen et al., 1994). Baran and Velickaite (2008) stated that entrepreneur is a basic element in entrepreneurship. They give distinctive definition for both. In their study, they defined entrepreneurship as a process that take place in different environments and circumferences and causes change in the economy through innovation, which are created by individuals recognizing economic opportunities creating value both to these individuals and societies. While entrepreneur is defined as someone who is highly responsive to change, who sees opportunities that others may not see, and who mobilize resources to make new things happen. Hence, entrepreneurs refer to individuals who carry out entrepreneurial actions (Baran and Velickaite, 2008).

Whilst, sustainability entrepreneurship (SE) is a concept that links sustainability development to entrepreneurship (Majid and Koe, 2012). Sustainability entrepreneurship in this study is defined as a process of venture creation that links the activities of entrepreneurs to the emergence of value-creating enterprises that contribute to the sustainable development of

social-ecological system (O'Neill et al., 2009). Apparently, the definition has domains of economic, social, environmental and cultural. According to Majid and Koe (2012) sustainability in this context covers the preserving those domains in an equal manner through continuous commitment from entrepreneurs who are innovative to make a change in their enterprise, process or product for sustainability. Correlation between entrepreneurship, economic performance and sustainability has been found in terms of growth, enterprise survival, innovation, employment creation, technological change, productivity increase and export (Baran and Velickaite, 2008).

As largely found in literature and discussed as above, the framework of entrepreneurship contains of three main domains; opportunity, resource and capacity building (Baran and Velickaite, 2008; Mazzarol, 2004; Timmons, 1999; Muzyka, De Koning and Churchill, 1995; Jones and Butler, 1992; Stevenson and Jarillo, 1990). Opportunity domain covers of innovation, new business start up, discovery, creative, individual or trait approach such as personality, management skills and goal, new ideas and value creation. Maes (2003) stated that creative/entrepreneurial process and new value creation starts with discovery and recognition of business opportunities. While resource domain covers of financial, technological, material, and human capital (labour). The last domain in the theoretical framework as shown in Figure 1 is capacity building which is a process creation in achieving sustainable entrepreneurship. It consists of elements such as team, human development, managing human capital, reward and performance management, motivation, corporate entrepreneurship, strategic management process, strategic stakeholder strategy and leadership. This last domain is actually about a process adopted from strategic thinking, strategic management knowledge which include of resource planning and management.



## Figure 1: Theoretical Framework for entrepreneurship

Some researchers aware of the environmental factors and consider to be included in process domain Baran and Velickaite, 2008; Maes, 2003; Gartner, 1985). It can be categorized into close environment and remote environment. Entrepreneurial background is one example of close environment. Elements in entrepreneurial background such as family experience and education can influence the business nature of enterprise (Gartner, 1985). Baran and Velickaite (2008) stated that the remote environment includes forces, conditions and impact on the new value creation process. Furthermore, they stated that different entrepreneurial project can have different close and remote environments. Therefore, a comprehensive study is needed by entrepreneurs before embark on the entrepreneurial process.

The processes in ensuring achievable and successful enterprise as mentioned in the third domain (building capacity) are simplified and shown in Figure 2. It is consisting of strategic management practices which include of strategic thinking and planning, organizing, measuring and improving. Factor of leadership is also not ignored for sustainable, successful enterprises.

The proposed theoretical framework as above has basis of three fundamental of domains for entrepreneurship, it is blended with strategic management practices (Mazzarol, 2004) with significant element for sustainability entrepreneurship. It will be supported by correlation coefficient from statistical analysis that will be enclosed in the section of findings.

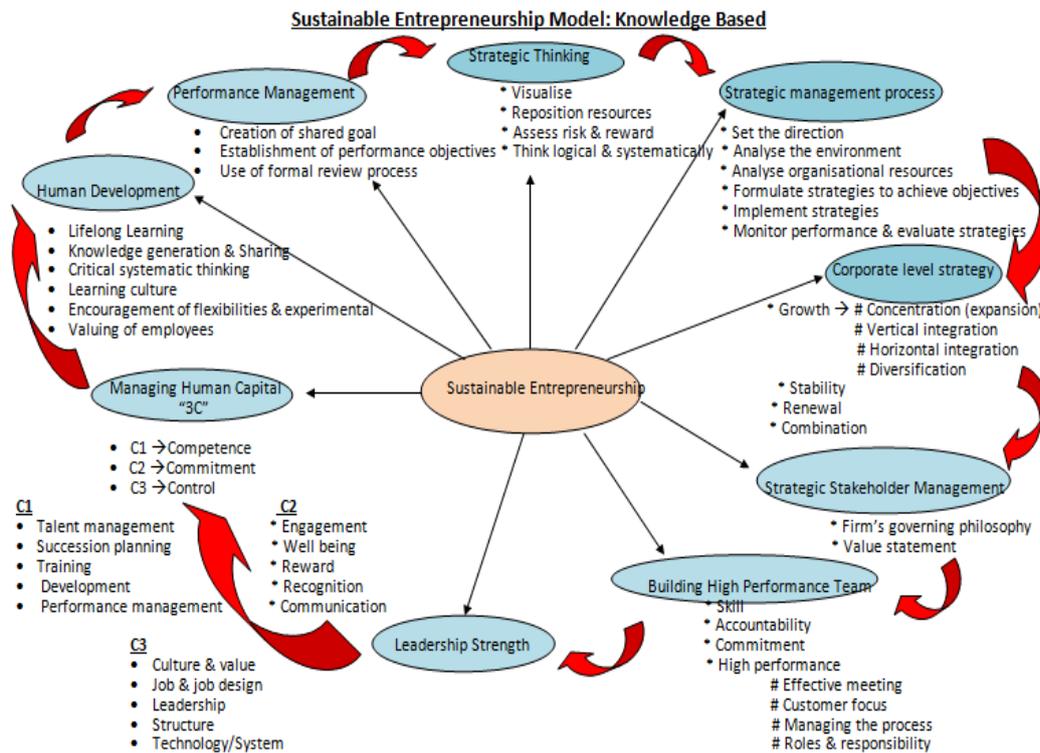


Figure 2: Integral process in entrepreneurship framework from the basis of strategic management

### 3. Objective

This paper is aimed at sharing knowledge in bringing success and sustainable entrepreneurship, by understanding the impact of strategic thinking, strategic leadership, strategic management processes and strategic human capital management. A conceptual framework is provided that can be used as a guideline in achieving sustainable entrepreneurship. This research also aimed to find the best predictor of sustainable enterprise.

The strategic management practices included in this study are strategic thinking, strategic management process, corporate strategy, strategic stakeholder management and involvement, building high performance team, leadership strength, managing human capital, human development and performance management; were selected on the basis on their attribution and potential in influencing enablers of sustainable entrepreneurship or enterprise performance. The potential and influence of those elements lead to the following hypothesis:

“A positive relationship exists between strategic management practices and sustainable entrepreneurship.”

#### **4. Method and approach**

The integrated approach proposed as shown in Figure 2 is based on the understanding of strategic thinking, management, leadership and human capital development and management. The research frame was initially generated and simplified through the methods of interview and brainstorming in conferences, forums and meetings conducted at institute and national levels.

The emphasised elements for sustainable enterprises are knowledge and strategic practices which are strategic thinking, strategic management process, corporate level strategy and strategic stakeholder management, building high performance team, leadership strength, managing human capital, human management, and performance management.

It is conceptually aimed by setting up the direction and vision for enterprises which are determined by the stakeholder. Shared values and goals, working in one direction collectively and competence leaderships are the important ingredients for success and sustainability in business. Competitiveness in business is attributed to innovative strategic thinking, service and quality. It includes values such as commitment, competence, accountability, responsibility, control and evaluation.

The quantitative study was based on the participants' answers of the questionnaire which were administered to 156 participants gathered from some forums, meetings and training programs conducted at institute and national levels. The questionnaire developed consists of seven sections;

- i) Section A : Sustainability measurement
- ii) Section B : Strategic thinking
- iii) Section C : Strategic management process
- iv) Section D : Corporate level energy
- v) Section E : Strategic stakeholder management
- vi) Section F : Building high performance team
- vii) Section G : Leadership strength
- viii) Section H : Managing human capital
- ix) Section I : Human development

x) Section J : Performance Management

Every section contains four questions to measure the criteria or factor being studied (see Appendix A). Respondents were required to respond one of the five descriptors ranging from “Strongly disagree” to “Strongly agree” (5-point Likert scale). Question no 3 and 4 were intentionally designed in negatively worded for checking and reliability purposes.

Pearson Product Moment Correlations were chosen in determining the correlation between independent abovementioned factors (variables) and sustainable entrepreneurship. Regression analysis was used in analysing for the best predictor of sustainable entrepreneurship (dependent variable). Data was analyzed using the Statistical Package for Social Science version 12.0 for Windows.

## 5. Findings

The results from statistical analysis from SPSS (see Table 1) show all studied factors; strategic thinking, strategic management process, corporate level strategy, strategic stakeholder management, building high performance team, leadership strength, managing human capital, human development and performance management are significant correlated with sustainable entrepreneurship. Building high performance team factor has the highest correlation factor with 0.973 (see Table 1). The correlation results are represented in a simple form as shown in Figure 3.

Table 1: Results of Pearson Product Moment Correlations

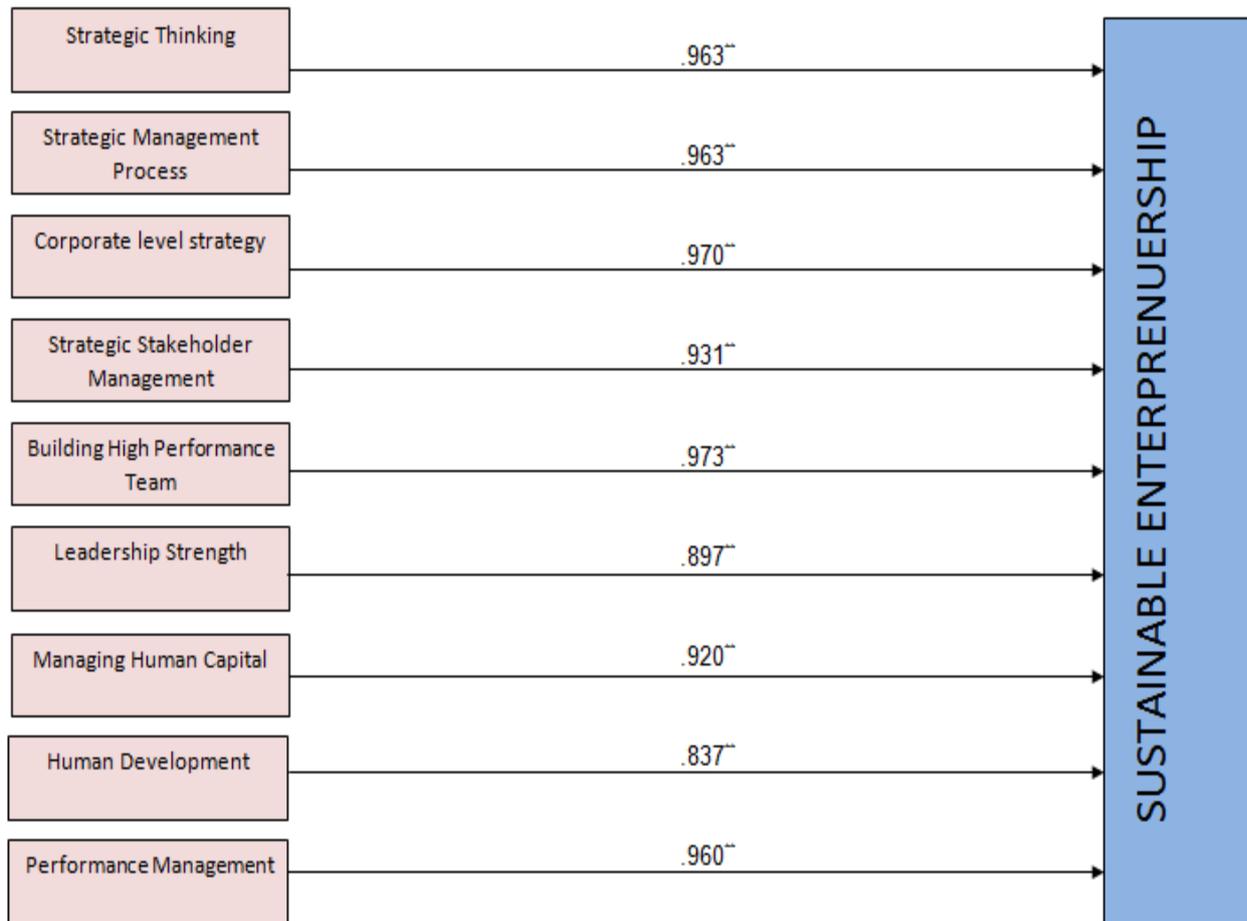
|                    | Sustain' | Stra-Think' | Stra-Mgt Proc | Corp-Stra | S'holder Inv Mgt | High Perf Team | Leader-ship Strengt h | Mgt Hu m Cap | Hum Dev | Perf Mgt |
|--------------------|----------|-------------|---------------|-----------|------------------|----------------|-----------------------|--------------|---------|----------|
| Sustain Pear. Corr | 1        | .963*       | .963**        | .970*     | .931**           | .973**         | .897**                | .920**       | .837**  | .960**   |
| Sig. (1-tailed)    |          | .000        | .000          | .000      | .000             | .000           | .000                  | .000         | .000    | .000     |
| N                  | 156      | 156         | 156           | 156       | 156              | 156            | 156                   | 156          | 156     | 156      |

|                    |                 |        |         |         |       |        |        |        |        |        |        |
|--------------------|-----------------|--------|---------|---------|-------|--------|--------|--------|--------|--------|--------|
| Strategic Thinking | Pear. Corr      | .963** | 1       | 1.000** | .975* | .946** | .949** | .929** | .925** | .856** | .948** |
|                    | Sig. (1-tailed) | .000   |         | .000    | .000  | .000   | .000   | .000   | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| Strategic Mgt_Proc | Pear. Corr      | .963** | 1.000** | 1       | .975* | .946** | .949** | .929** | .925** | .856** | .948** |
|                    | Sig. (1-tailed) | .000   | .000    |         | .000  | .000   | .000   | .000   | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| Corporate Strategy | Pear. Corr      | .970** | .975*   | .975**  | 1     | .953** | .958** | .920** | .941** | .860** | .954** |
|                    | Sig. (1-tailed) | .000   | .000    | .000    |       | .000   | .000   | .000   | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| S'-holder Inv Mgt  | Pear. Corr      | .931** | .946*   | .946**  | .953* | 1      | .925** | .902** | .919** | .858** | .917** |
|                    | Sig. (1-tailed) | .000   | .000    | .000    | .000  |        | .000   | .000   | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| High Perf Team     | Pear. Corr      | .973** | .949*   | .949**  | .958* | .925** | 1      | .892** | .913** | .819** | .939** |
|                    | Sig. (1-tailed) | .000   | .000    | .000    | .000  | .000   |        | .000   | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| Leadership         | Pear. Corr      | .897** | .929*   | .929**  | .920* | .902** | .892** | 1      | .896** | .863** | .891** |
|                    | Sig. (1-tailed) | .000   | .000    | .000    | .000  | .000   | .000   |        | .000   | .000   | .000   |
|                    | N               | 156    | 156     | 156     | 156   | 156    | 156    | 156    | 156    | 156    | 156    |

|                        |                 |        |       |        |       |        |        |        |        |        |        |
|------------------------|-----------------|--------|-------|--------|-------|--------|--------|--------|--------|--------|--------|
| Mgt<br>Human<br>Cap    | Pear. Corr      | .920** | .925* | .925** | .941* | .919** | .913** | .896** | 1      | .921** | .923** |
|                        | Sig. (1-tailed) | .000   | .000  | .000   | .000  | .000   | .000   | .000   |        | .000   | .000   |
|                        | N               | 156    | 156   | 156    | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| Human<br>Dev           | Pear. Corr      | .837** | .856* | .856** | .860* | .858** | .819** | .863** | .921** | 1      | .843** |
|                        | Sig. (1-tailed) | .000   | .000  | .000   | .000  | .000   | .000   | .000   | .000   |        | .000   |
|                        | N               | 156    | 156   | 156    | 156   | 156    | 156    | 156    | 156    | 156    | 156    |
| Perfor<br>mance<br>Mgt | Pear. Corr      | .960** | .948* | .948** | .954* | .917** | .939** | .891** | .923** | .843** | 1      |
|                        | Sig. (1-tailed) | .000   | .000  | .000   | .000  | .000   | .000   | .000   | .000   | .000   |        |
|                        | N               | 156    | 156   | 156    | 156   | 156    | 156    | 156    | 156    | 156    | 156    |

\*\* . Correlation is significant at the 0.01 level (1-tailed).

Correlation Analysis: Factors attributed to sustainable entrepreneurship



\*\* Correlation is significant at the 0.01 level (1-tailed).

Figure 3: Correlation analysis

Results from stepwise multiple regression analysis was done to get the best predictor of independent variables for dependent variable (sustainability entrepreneurship). From the output of regression analysis as shown in Table 2, showed that there were four out of nine factors which turned out to be significant predictors of enterprise sustainability  $F_{(4,155)}=1225.624, P<.01$ ). The four mentioned variables indicated as significant predictors were high team performance, performance management, corporate strategy, and strategic management process. The beta values in the coefficients table confirm that high performance team was the best predictor of sustainable entrepreneurship ( $\beta= .428$ ), followed by performance management ( $\beta= .235$ ), corporate strategy ( $\beta= .203$ ), and strategic management process ( $\beta= .136$ ), see Table 3.

Appendix B shows the results of Pearson Product Moment Correlations for each item to see its significant to sustainable entrepreneurship. All items in question no 3 and 4 for every variable show statistically significant in negative direction because of the items were designed in negative worded. This demonstrates the result obtained has reliability.

**Table 2: Results of stepwise**

**Coefficients<sup>a</sup>**

| Model |                     | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|---------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                     | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant)          | .053                        | .079       |                           | .664   | .508 |
|       | High_Perf_Team      | 1.005                       | .019       | .973                      | 51.938 | .000 |
| 2     | (Constant)          | -.027                       | .065       |                           | -.411  | .681 |
|       | High_Perf_Team      | .623                        | .046       | .603                      | 13.550 | .000 |
|       | Perf_Mgt            | .407                        | .046       | .394                      | 8.848  | .000 |
| 3     | (Constant)          | .024                        | .062       |                           | .392   | .696 |
|       | High_Perf_Team      | .462                        | .054       | .447                      | 8.614  | .000 |
|       | Perf_Mgt            | .266                        | .051       | .257                      | 5.179  | .000 |
|       | Corporate_Strategy  | .276                        | .055       | .296                      | 4.976  | .000 |
| 4     | (Constant)          | .051                        | .062       |                           | .812   | .418 |
|       | High_Perf_Team      | .442                        | .054       | .428                      | 8.201  | .000 |
|       | Perf_Mgt            | .243                        | .052       | .235                      | 4.685  | .000 |
|       | Corporate_Strategy  | .188                        | .069       | .203                      | 2.719  | .007 |
|       | Strategic_mgmt_Proc | .126                        | .061       | .136                      | 2.060  | .041 |

a. Dependent Variable: Sustainability

**Table 3: Results of stepwise regression on predictors of sustainable entrepreneurship**

| Predictors                   | R <sup>2</sup> | Beta | Sig  |
|------------------------------|----------------|------|------|
| High Performance Team        | .946           | .428 | .000 |
| Performance Management       | .964           | .235 | .000 |
| Corporate Strategy           | .969           | .203 | .007 |
| Strategic management Process | .969           | .136 | .041 |

## **Discussion**

Any model to be used as guidance for success and sustainable is very subjective and consists of many variables. The selection of models is dependent on many factors such as company size, staff, organisation structure, nature of business and culture. However, effective models must have significant correlation elements to the goal to be achieved. Concentrating to only one factor e.g. the best predictor of sustainable enterprise should be avoided where it is impossible to success and sustain in business. Therefore, an integrated model consists of significant elements must be adopted in achieving success and sustainable entrepreneurship.

In this study, an integrated model is proposed for achieving a sustainable entrepreneurship based on the analysis of correlation study. Building high performance team is found statistically the highest significant correlation in achieving sustainable entrepreneurship. Building high performance is attributed to skill, accountability, effective task organising and

responsibility. The regression analysis demonstrated that there are four out of nine elements which turned out to be significant predictor of sustainable entrepreneurship. The results from regression analysis show that building high performance team is the best predictor of sustainable entrepreneurship. It is followed by performance management, corporate strategy and strategic management process.

Technically, from the analysis the authors can generalised that factors that contribute to success and sustainable enterprise are attributed to staffs' values, effective management which including performance rewards, and business strategy in keeping the enterprise survive and expanding. The element in staffs' values such as accountability, commitment and skill should be given attention.

An integrated model consists of those aforementioned elements and tested with correlation study is probably practical to be adopted irrespective of the size of the enterprise, the numbers of employees, new and matured enterprise.

## **Implications**

Strategic thinking is associated with policy makers in an organisation or enterprise company. Stakeholders or leaders have to think strategically when they visualise what they want the enterprise to become (Zabriskie and Huellmantel, 1991). Its main role is to set direction, goals and vision to be achieved. In addition, it provides the systematic and strategic thinking of reposition resources in order to compete in the future (Zabriskie & Huell mantel, 1991). At the initial stage, strategic thinking performs some analyses such as the SWOT analysis and balanced score card in determining the strength, weakness, opportunity for and threat to the company. Strategic thinking is also involved in risk assessments, rewards and costs of alternatives in ensuring the success and sustainability of a company. There is a very high possibility of failure if this first element (strategic thinking) is not given serious consideration, as it should be regarded as one of the importance processes. Enterprises might have unclear direction, vision and mission due to a lack of strategic thinking. As a result, employees' commitment and accountability are jeopardised. Therefore, leaders have to think logically and systematically when developing their strategic thinking.

An organisation or business enterprise would face failure if its management process is not complemented with a strategic process which includes setting a clear direction, and analysing the environment by identifying the opportunities and threats, strengths and weaknesses of

enterprise resources. Also involved are the process of formulating and implementing strategies in achieving objectives. Strategic management processes are linked with monitoring performance and evaluating strategies within the process cycles.

Entrepreneurship sustainability, competitiveness and resilience can be achieved with adaptation of a corporate level strategy. This involves four stages: growth, stability, renewal and business merging (combination). There are three strategies at the growth stage for strengthening and sustaining the business; they are expansion, integration and diversification. Business trend is always fluctuating; therefore stability in business is difficult to define. However businesses/enterprises always need renewal and merger (combination) activities, contracts and plans.

Strategic stakeholder management provides clear value statements, policies and philosophies for the enterprise in which it has invested. Stakeholders must play their role effectively since they have three attributes: legitimacy, power and urgency. Power is needed to manage and structure the organisation, for instance the appointment of personnel based on references and expertise. In addition, power is needed to make the big decisions and involve urgency. Stakeholders have the power of ultimatum. Therefore, it can be used effectively for urgency and when there is a demand for immediate attention. The implication of a lack of confidence and late response of stakeholders to effectively use their power and roles by interfering enterprises' management will caused difficulties and disruption. Eventually, as a result, the enterprise will collapse. This demonstrates the importance of stakeholder roles in determining and monitoring entrepreneurship sustainability.

The team role is a significant factor in building high performance teams. Here it is worth looking at Belbin's Team Roles which consist of role players such as shaper, implementer, completer/finisher, specialist, monitor/evaluator, plant, resource investigator and team worker (Belbin, 1981). In Belbin's model, the players complement each other by forming a high performing team for a particular project. A successful enterprise always emphasises the role of human capital development and management by tapping into and developing the team role for its employees. Goals cannot be completely achieved in a big organisation if there is no team role and teamwork.

From the leadership aspect in pursuing excellence and sustainability in business, any organisation needs a competent leader who can blend all employees to work in the same direction and for the same goals. A good leader is a role model for values such as respect, teamwork, accountability and well being. Leadership is not about position power, it's about the way of being (Rosamund and Benjamin, 2000). Leadership is about leading by making others powerful; an analogy is that of an orchestra where the conductor does not make any

sound, but he/she gives energy and synergy to the musicians on the floor in creating sound and melody. Imagine what would happen to an organisation if the leader were to be passive, i.e. not sharing his/her power, nor delegating power and not communicating effectively? Definitely, the enterprise will fail, as it would not be competitive and would lag behind.

Managing human capital in supporting sustainability of enterprise encompasses three angles; competence, commitment and control process. Competence can be strategically managed through a well planned talent management and succession planning, such as providing a backup for a future leader (successor) who strategizes the formulae and planning for the company's training provision, development programme and performance evaluation. Commitment is generalised from engagement, well being, reward, recognition and communication. The third angle is about controlling those processes; it is attributed to culture and value, job specification, leadership factors, organisation structure and technology or systems used, such as the attendance sheet system, information technology etc. Human development is one of the critical aspects that need to be looked at when determining the sustainability of any enterprise since it is a susceptible asset which can be turned into a positive or negative impact. Human capital development can be achieved through an effective programme such as lifelong learning, knowledge generation and sharing, learning culture, encouragement and a culture of valuing employees.

The last element in the model as shown in Figure 2 is performance management. This can be divided into two: the first is employees' performance and the second is enterprise performance in terms of profitability and stability in entrepreneurship. Performance management approaches can be achieved through programmes of the creation of shared goals such as poster competitions or quality day. The establishment of performance objectives such as key performance indicators (KPIs) or key result areas (KRAs) are practical approaches. This would definitely need to use a formal review process in order to avoid both dissatisfaction among employees and to be transparent.

### **Concluding Observation**

As for the conclusion, a guideline and awareness of integrated factors from strategic thinking, management knowledge and building high performance team are important and need to be applied in every growing enterprise. There are key factors to success and sustain in the business world and future expanding. A successful business always supported the knowledge to the customer and its employees.

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## **Appendix A: Table of Specification for items of questionnaire**

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### Items of Questionnaire

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#### **Section A (Sustainability Measurement):**

- A 1: Your Company has been surviving and makes profit in the business involved?
- A 2: Your Company will survive and sustain for the next 15-20 years.
- 

#### **Section B (Strategic Thinking):**

- B 1: Your Company has strategic planning and strategic management in achieving specific objective.
- B 2: Your Company has a structured programme for planning and forecast.
- B 3: Your Company doesn't have a clear and shared vision, mission and goals?
- B 4: Your Company does have vision, mission and goals, but not well communicated to be shared.
- 

#### **Section C (Strategic management Process):**

- C 1: Your Company has strategies to achieve the objective.
- C 2: Your Company always smoothly implements the strategy (well planning).
- C 3: Your Company rarely monitors and reviews the performance.
- C 4: Your Company is not taking serious in getting more options, updating the opportunity about environmental and resources.
- 

#### **Section D (Corporate Strategy/Business consolidation):**

- D 1: Your Company has experienced the growth by expansion and integration (e.g. departments, sections, branches) during hard times in the past.
- D 2: You Company always evaluates your achievement quarterly.
- D 3: Your Company does not have proactive effort and strategy for contract renewals and acquisition.
- D 4: Your Company is not preferred for businesses combination or merger with other enterprises for competitiveness.
-

**Section E (Stakeholder involvement & Management):**

- E 1: The stakeholder plays active roles and advices in management.
  - E 2: The stakeholder shows value statement to share with its employees.
  - E 3: The stakeholder leaves the management matters to managers merely.
  - E 4: The stakeholder does not appreciate values and culture in developing human capital.
- 

**Section F (High performance Team):**

- F 1: Your Company values more skill and experiences rather than academic qualification.
  - F 2: Your Company emphasize on trainings and accountability awareness to its employees.
  - F 3: Your Company assigns many tasks at the same time.
  - F 4: Your Company never makes post-mortem and strategies for building high performance team.
- 

**Section G (Leadership strength):**

- G 1: Your Company has a strong role model leadership.
  - G 2: Leader is always mixed and humble with employees and capable in transform employees.
  - G 3: Higher education qualification is mandatory criteria for a higher post in your company rather than experienced and seniority/age.
  - G 4: Your Company practice transactional leadership style rather than transformational leadership style.
- 

**Section H (Managing Human Capital):**

- H 1: Your Company has a well organizational structure in managing human capital
  - H 2: Your HR is competence enough (talent management, training, development and performance management) in managing human capital.
  - H 3: Your Company provides a means for enhancing commitment such as engagement in implementing tasks, well being, rewards, recognition and communication.
  - H 4: Your Company has effective and specific means in controlling job, assignment, quality, leadership, organizational structure and technology or system).
- 
-

**Section I (Human Development):**

- I 1: Your Company supports and provides opportunity for lifelong learning programmes to its staff.
  - I 2: Your Company inculcates the learning culture of knowledge generation and sharing.
  - I 3: Your Company is too rigid, does not encouraging flexibilities in working environment.
  - I 4: Your company does not valuing its employees.
- 

**Section J (Performance Management):**

- J1: Your Company stressed the creation of shared goal and reviewing achieved individual staff performance.
  - J 2: Your Company established performance objectives to each employee at first quarter of year.
  - J 3: Your Company has no formal review criteria and structured appraisal form to be evaluated for each employees at end of year.
  - J 4: Your Company is not transparent in promoting employees.
-

**Appendix B:** Pearson product-moment correlation matrix of the item in each category: Sustainability (A), Strategic thinking (B), Strategic management process (C), Corporate strategy (D), Stakeholder involvement & management (E), Building high performance team (F), Leadership strength (G), Managing human capital (H), Human development (I), Performance management (J)

|        | A1      | A2      | B1      | B2      | B3      | B4      | C1      | C2      | C3      | C4      | D1      | D2      | D3      | D4      | E1      | E2      | E3 | E4 |
|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----|----|
| 1. A1  | 1       |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |    |    |
| 2. A2  | .938**  | 1       |         |         |         |         |         |         |         |         |         |         |         |         |         |         |    |    |
| 3. B1  | .932**  | .967**  | 1       |         |         |         |         |         |         |         |         |         |         |         |         |         |    |    |
| 4. B2  | .898**  | .932**  | .942**  | 1       |         |         |         |         |         |         |         |         |         |         |         |         |    |    |
| 5. B3  | -.910** | -.949** | -.961** | -.948** | 1       |         |         |         |         |         |         |         |         |         |         |         |    |    |
| 6. B4  | -.918** | -.953** | -.973** | -.932** | .962**  | 1       |         |         |         |         |         |         |         |         |         |         |    |    |
| 7. C1  | .932**  | .967**  | 1.000** | .942**  | -.961** | -.973** | 1       |         |         |         |         |         |         |         |         |         |    |    |
| 8. C2  | .898**  | .932**  | .942**  | 1.000** | -.948** | -.932** | .942**  | 1       |         |         |         |         |         |         |         |         |    |    |
| 9. C3  | -.910** | -.949** | -.961** | -.948** | 1.000** | .962**  | -.961** | -.948** | 1       |         |         |         |         |         |         |         |    |    |
| 10. C4 | -.918** | -.953** | -.973** | -.932** | .962**  | 1.000** | -.973** | -.932** | .962**  | 1       |         |         |         |         |         |         |    |    |
| 11. D1 | .935**  | .960**  | .973**  | .945**  | -.968** | -.970** | .973**  | .945**  | -.968** | -.970** | 1       |         |         |         |         |         |    |    |
| 12. D2 | .940**  | .957**  | .963**  | .934**  | -.952** | -.949** | .963**  | .934**  | -.952** | -.949** | .962**  | 1       |         |         |         |         |    |    |
| 13. D3 | -.782** | -.817** | -.831** | -.807** | .836**  | .850**  | -.831** | -.807** | .836**  | .850**  | -.845** | -.835** | 1       |         |         |         |    |    |
| 14. D4 | -.927** | -.936** | -.926** | -.905** | .924**  | .932**  | -.926** | -.905** | .924**  | .932**  | -.947** | -.929** | .795**  | 1       |         |         |    |    |
| 15. E1 | .877**  | .904**  | .912**  | .877**  | -.911** | -.911** | .912**  | .877**  | -.911** | -.911** | .912**  | .910**  | -.800** | -.891** | 1       |         |    |    |
| 16. E2 | .847**  | .877**  | .903**  | .866**  | -.898** | -.905** | .903**  | .866**  | -.898** | -.905** | .907**  | .886**  | -.815** | -.851** | .828**  | 1       |    |    |
| 17. E3 | -.903** | -.919** | -.929** | -.911** | .934**  | .928**  | -.929** | -.911** | .934**  | .928**  | -.940** | -.925** | .799**  | .912**  | -.889** | -.862** | 1  |    |

|        |         |         |         |         |        |        |         |         |        |        |         |         |        |        |         |         |        |   |
|--------|---------|---------|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|--------|---|
| 18. E4 | -.747** | -.772** | -.771** | -.766** | .783** | .786** | -.771** | -.766** | .783** | .786** | -.792** | -.792** | .885** | .765** | -.738** | -.759** | .767** | 1 |
|--------|---------|---------|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|--------|---|

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\*\*Correlation is significant at the 0.01 level , P<0.01

### Appendix B: Continue...

|        | F1      | F2      | F3      | F4      | G1      | G2      | G3      | G4      | H1     | H2     | H3     | H4     | I1     | I2 | I3 | I4 | J1 | J2 | J3 | J4 |
|--------|---------|---------|---------|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|----|----|----|----|----|----|----|
| 19. F1 | 1       |         |         |         |         |         |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 20. F2 | .904**  | 1       |         |         |         |         |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 21. F3 | -.854** | -.807** | 1       |         |         |         |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 22. F4 | -.768** | -.742** | .791**  | 1       |         |         |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 23. G1 | .758**  | .732**  | -.788** | -.746** | 1       |         |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 24. G2 | .848**  | .861**  | -.787** | -.767** | .689**  | 1       |         |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 25. G3 | -.756** | -.758** | .736**  | .925**  | -.702** | -.759** | 1       |         |        |        |        |        |        |    |    |    |    |    |    |    |
| 26. G4 | -.875** | -.880** | .791**  | .783**  | -.747** | -.840** | .765**  | 1       |        |        |        |        |        |    |    |    |    |    |    |    |
| 27. H1 | .727**  | .743**  | -.761** | -.908** | .690**  | .768**  | -.893** | -.752** | 1      |        |        |        |        |    |    |    |    |    |    |    |
| 28. H2 | .912**  | .917**  | -.851** | -.773** | .761**  | .842**  | -.762** | -.879** | .735** | 1      |        |        |        |    |    |    |    |    |    |    |
| 29. H3 | .881**  | .893**  | -.840** | -.765** | .764**  | .817**  | -.757** | -.849** | .752** | .894** | 1      |        |        |    |    |    |    |    |    |    |
| 30. H4 | .805**  | .798**  | -.806** | -.926** | .722**  | .803**  | -.917** | -.806** | .889** | .818** | .789** | 1      |        |    |    |    |    |    |    |    |
| 31. I1 | .777**  | .754**  | -.800** | -.942** | .755**  | .758**  | -.924** | -.790** | .875** | .800** | .758** | .920** | 1      |    |    |    |    |    |    |    |
| 32. I2 | .794**  | .800**  | -.821** | -.925** | .773**  | .821**  | -.906** | -.797** | .879** | .807** | .803** | .906** | .909** | 1  |    |    |    |    |    |    |

|     |    |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |        |   |
|-----|----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|---|
| 33. | I3 | -.804** | -.792** | .803**  | .924**  | -.740** | -.802** | .912**  | .800**  | -.888** | -.822** | -.806** | -.927** | -.916** | -.894** | 1       |         |         |         |        |   |
| 34. | I4 | -.921** | -.917** | .847**  | .778**  | -.781** | -.884** | .756**  | .881**  | -.753** | -.926** | -.887** | -.804** | -.787** | -.809** | .796**  | 1       |         |         |        |   |
| 35. | J1 | .880**  | .871**  | -.850** | -.813** | .753**  | .831**  | -.780** | -.863** | .780**  | .885**  | .886**  | .835**  | .806**  | .829**  | -.839** | -.882** | 1       |         |        |   |
| 36. | J2 | .901**  | .908**  | -.821** | -.759** | .761**  | .841**  | -.756** | -.893** | .747**  | .916**  | .884**  | .788**  | .770**  | .794**  | -.774** | -.925** | .888**  | 1       |        |   |
| 37. | J3 | -.915** | -.920** | .816**  | .769**  | -.733** | -.840** | .759**  | .871**  | -.711** | -.927** | -.908** | -.803** | -.777** | -.804** | .800**  | .918**  | -.885** | -.910** | 1      |   |
| 38. | J4 | -.914** | -.909** | .840**  | .773**  | -.808** | -.852** | .752**  | .892**  | -.744** | -.921** | -.894** | -.804** | -.795** | -.823** | .803**  | .924**  | -.875** | -.919** | .923** | 1 |

\*\*Correlation is significant at the 0.01 level , P<0.01

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## A SUSTAINABLE MODEL OF CAPACITY BUILDING FOR PRIVATE SECTOR GROWTH

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### Abstract

**Objectives:** There is agreement among scholars, practitioners and policy makers that the paucity of financing options and the shortage of human capital are two primary reasons for the lack of entrepreneurial development in developing nations. These constraints also contribute to the limited capacity of smaller firms to grow and engage in the global economy through exports or outward investment. As a result, firms in developing countries often rely on imports in order to acquire the necessary technologies. Consequentially, innovation is evasive but so is imitation which also requires human absorptive capacity and skills. Some developing country governments have made efforts to develop their private sectors by creating incentives. In most cases, these incentives have fallen short of expectations because of the gap in the demand and supply of capital and skilled labor. It is imperative to bridge this gap by building novel, low cost and sustainable models for entrepreneurship development. In reality, very few, if any models or implementable frameworks exist. It is also important to recognize that any such model needs to be country context specific and should aim to build high impact, growth companies to provide jobs for the bulging youth populations that typify many developing countries. In this paper, we adopt a capabilities perspective to develop a sustainable model of private sector led growth through entrepreneurship development.



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**Theoretical Background/ Approach/Methods:** At the core of our model lies the concept of regional entrepreneurship communities (REC) which we introduce in this paper. RECs are centered and constructed around local universities in a particular region. The goal of RECs is to increase the absorptive capacity of human resources in that region such that they are able to more easily acquire and develop the skills and capabilities which become valuable factors of production (of innovative and entrepreneurial firms). RECs combine high-quality, focused education and technology development programs with incubators, technology commercialization offices, research centers, labs, relationships with the regional governments and the local business community. RECs can be vehicles for pulling in funds and ultimately serve as a catalyst for regional growth within developing countries.

**Results/Insights:** Through our model, we demonstrate that RECs can lower some of the cultural perception of risk that is inherent in entrepreneurship by increasing the social returns as well as the returns to economic activity. Furthermore, RECs established in multiple nations are linked to operate as a system with autonomy and knowledge sharing in order to enhance these benefits. RECs are able to capture the benefits of concentration due to positive information and coordination externalities within the region but also the benefits of scale because of the greater ease of knowledge sharing across regions.

**Implications:** We illustrate that through RECs, nations are able to upgrade the skills of human resources, raise firm productivity, lower the costs of doing business and overcome the institutional bottlenecks, thereby encouraging private sector growth. Achieving these objectives enables nations to move up along the economic ladder. Our study also informs policies to create improved incentives for private sector growth in multiple sectors.

**Keywords:** innovation, regional entrepreneurship communities, human skills, capabilities, developing countries

## 1. INTRODUCTION

‘In July 2003, when the Secretary-General first announced the establishment of the Commission on the Private Sector & Development, he pointedly noted: "Our experience has shown that a large part of the work for development is about **preparing the ground** for sufficient private sector activity to provide the jobs and income needed to build a more equitable and prosperous society.” (Retrieved from [www.undp.org](http://www.undp.org))



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Supranational organizations as well as the governments of developing countries acknowledge that private sector development through entrepreneurship is crucial to national growth. There is agreement among scholars, practitioners and policy makers that the paucity of financing options and the shortage of human capital are two of the primary reasons for the lack of entrepreneurial development in developing nations. These constraints also contribute to the limited capacity of smaller firms to grow and engage in the global economy through exports or outward investment. As a result, firms in developing countries often rely on imports in order to acquire the necessary technologies. Consequentially, innovation is evasive but so is imitation which also requires human absorptive capacity and skills. Thus, the gap in the demand and supply of entrepreneurship can be attributed to institutional factors which contribute to the high cost of private sector development, the poor quality of education and also the lack of cultural support for entrepreneurship in some societies.

It is imperative to bridge this gap by building novel, low cost and sustainable models for entrepreneurship development. While efforts are being made at various levels to create entrepreneurial economies, there is a need to develop sustainable models in order to “*prepare the ground*” for private sector growth (UNDP, 2012). In reality, very few, if any models or implementable frameworks exist. A few of the industrialized nations, especially the United States (US) have been successful at breeding entrepreneurial firms that have a high impact on their local and regional economies. According to Schramm (2004), the reason for the success of the US model is that it is a system which utilizes the important roles played by the government, universities, entrepreneurs and larger sized, mature firms (Kshetri and Dholakia, 2011). Additionally, like most advanced countries, it is equipped with better quality institutions, access to financing and the existence of or the ability to acquire skilled human resources, all of which factors are elusive to developing nations. In these lower income countries, there is a thus need to develop models that can build capacity for entrepreneurship.

In this paper, we develop a model for capacity building for private sector growth in developing countries. Recognizing the crucial role of the actors in the US model, our model is complementary yet different. While we agree that it might be presumptuous to impose the US model on another country, especially one that is developing or emerging along the development corridor, it is possible to conceive that certain parts or aspects of the model might be transferable to a different region after making context specific alterations. At the core of our model lies the concept of regional entrepreneurship communities (REC) which we introduce in this paper. RECs are centered and constructed around local universities in a particular region. The goal of RECs is to increase the absorptive capacity of human resources in that region such that they are able to more easily acquire and develop the skills and capabilities which become valuable factors of production (of innovative and entrepreneurial firms). RECs combine high-quality, focused education and technology development programs with incubators, technology commercialization offices, research centers, labs, relationships with the regional governments and the local business community. RECs can be



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vehicles for pulling in funds and ultimately serve as a catalyst for regional growth within developing countries.

Our paper makes several contributions. Theoretically, we employ the capabilities perspective to show how regions can fill the gap between the demand and supply of private sector activity. Governments can incentivize the formation of firms which then leads to the creation of jobs, wealth and other beneficial outcomes. However, it is necessary to build capacity to take advantage of those incentives. The model presented in this study illustrates how regions and nations can create and develop the capabilities which are the means to achieve the outcomes or ends of development. Our model is also distinguished from other existing frameworks because of an element of sustainability that is inherent in its workings. Furthermore, we provide an example of a similar functioning model in the state of Virginia in the United States. We believe that the model can be transferred to some emerging countries with context specific changes. By doing so, we suggest that although Western models of growth cannot be replicated easily in developing nations there are still some lessons that can be learned from their experiences. Such knowledge sharing across borders continues to be important for shared growth.

This paper is organized as follows. In the next section, we describe the theoretical basis of the study and how it contributes to the development of the model. Then, we explain the Virginia-based model and its various components. We next explain the model that we present in this study for implementation in developing countries. Finally, we discuss the implications of the model and the conclusions of the study for sustainability, entrepreneurship and private sector growth.

## 2. THEORETICAL BACKGROUND

Entrepreneurship entails opportunity recognition and the exploitation of those opportunities using resources and capabilities (Shane and Venkataraman, 2000). An economy's formal and informal institutional context influences "the character of opportunities and the individuals who discover, evaluate and exploit them" (Baker, Gedajlovic and Lubatkin, 2005, pp. 493). Therefore, resources can be generated by governments through policy initiatives. The governments of many developing and emerging countries for example have been undertaking pro-market structural reforms which have resulted in institutional development and economic liberalization (Cuervo-Cazurra and Dau, 2009). These reforms have resulted in the freeing up of resources which ideally, efficient firms can allocate to their most productive use. But in order to do so, firms need to employ human skills, financial resources, technology and other necessary ingredients. However,



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developing countries often lack the necessary capabilities to efficiently and effectively utilize the available resources. Therefore, we can conclude that there is a lack of capabilities for private sector growth and entrepreneurship due to which many firms remain small in size and a part of the informal sector. We use a simple definition of capabilities as highlighted by Amit and Schoemaker (1993, pp. 35) as the capacity to deploy resources. Thus, we employ the capabilities approach in this paper.

We contend that as governments implement policies that gradually release resources into the economy for the growth and development of the private sector, these are not sufficient to achieve these goals. Due to the poor quality of secondary and higher education in all fields, lack of information on commercialization of technology or marketing knowledge and often the cultural intolerance for self-employment among other reasons, firms in developing countries are unable to take advantage of the available resources. These resources also often come at a high cost. Take the case of Chinese companies for example. In spite of decades of growth in foreign direct investment and domestic investment, many Chinese manufacturing firms remain cogs in the global supply chains of multinational firms. As Metcalfe and Ramlogan (2008) suggest, “with trade liberalization, these economies have been restructured to exploit resource-based comparative advantages, or organized on a low-skill, non-engineering intensive model controlled by foreign enterprises, often as elements in global supply chains with negligible local commitment to building innovative capacity”. Some of this weak commitment might be due to their inability to move higher up along the supply chain.

Similarly, in a recent article published by BBC News interviewed entrepreneurs in Vietnam who claimed that "The education system is not geared towards creating innovators and that does not seem to be changing any time soon under the current government guidelines."; "Vietnamese start-ups do have great potential"....."But the truth is their competitiveness is still very low" and .....""international-standard products require a lot of investment and many more developers than there are at the moment" (Pham, 2012). This is true of firms in other emerging economies also including those with more democratic political orientations. Furthermore, it is not simply knowledge of science or engineering which is certainly important and often the key to higher innovation and entrepreneurship but also the knowledge of entrepreneurship itself and managerial training on how to commercialize technologies or how to successfully market products in the home country and abroad.

It is necessary to put in place a mechanism that can develop the capacity and capabilities for individuals to be able to respond and create and grow private businesses. We



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propose a model of regional entrepreneurship communities (REC) as one such mechanism for capacity building for private sector growth. We suggest that RECs need to exist at a local level. The goal of RECs is to increase the absorptive capacity of human resources in that region such that they are able to more easily acquire and develop the skills and capabilities which become valuable factors of production (of innovative and entrepreneurial firms).

### 3. THE VIRGINIA REC MODEL

There is no dispute that there is a low supply of entrepreneurial activity in most countries. Different countries have set up organizations and institutions, often government operated or supported in order to spur entrepreneurial activity. Similarly private organizations have established local incubators in order to achieve similar goals of creating jobs and employment in the area. In most cases and in spite of overlapping goals, the incubators, firms and education systems work independently with each entity being focused on its own narrow goals. The key to unleashing the synergy between all of these actors is to make them a part of a single, regional network or community which operates as a system. The system is mutually reinforcing and does not replicate efforts thereby keeping costs low. We refer to such networks or communities as regional entrepreneurship communities (REC) which are able to increase the capability of the region for entrepreneurship development. We can use the example of the Virginia REC (VREC) to illustrate our model in more detail. We use the VREC to demonstrate the functioning of an REC and then use that example to illustrate our notion of an REC in an emerging economy.

The VREC was conceptualized and developed by George Mason University (Mason), a leading academic institution based in Fairfax, Virginia in the United States ([www.gmu.edu](http://www.gmu.edu)). Entrepreneurship at Mason is embedded throughout the University in its curriculum, and in multiple centers and programs most of which are multidisciplinary and multi-unit in nature. Some years ago, Mason launched the VREC initiative. The VREC is comprised of multiple centers across the university each having its own mission but at the same time interacting with and promoting the growth and effectiveness of the others. At the same time the centers are actively involved with other external organizations in the delivery of their programs. The mission of the VREC is to embed entrepreneurship and innovation thinking and acting throughout the university in an effort to promote innovative behaviour in



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its research and education program across the state and the broader national and global society. A key aspect of the VREC is the role of knowledge spillovers to other centers in the network. All members benefit from these spillovers. These spillovers between the different centres create the strength and unique network features of the VREC. All the different units or nodes in the VREC are governed by the central body, the Entrepreneurship Council which oversees entrepreneurship policy, its programmatic development and promotion of its cross unit cooperation.

The effort began with the acquisition of the Mason Enterprise Center (MEC) in the year 1997. The mission of the MEC is to involve university students, faculty and staff in the provision of business assistance to start-ups throughout the state of Virginia. The MEC provides for the management of the small business assistance and procurement and the technical assistance networks of more than 30 service centres across Virginia, as well as multiple successful business incubators on Mason campuses including an international incubator. The MEC delivers more than 300 education programs for small businesses and provides assistance to more than 15,000 businesses annually. The spillovers to other network members include business assistance, development and education services.

While the MEC focuses on assisting small and medium sized enterprises, the Mason Entrepreneurship Initiative (MEI) focuses on technology commercialization to create growth companies. The mission of the MEI is to facilitate the development of Mason faculty, staff and student intellectual property and to monetize it through licensing, company formation and the enforcement of patent misuse. This company centric model emphasises proof of concept, relevance of methodology, a vetting group of external entrepreneurs, assessing Mason's intellectual property and creating development plans as part of the MEI. Spillovers to other network members include providing an advisory and guidance infrastructure for creation of companies and policies to support this in developing countries in collaboration with the Center for Entrepreneurship and Public Policy and the Center for Social Entrepreneurship.

The Mission of the Mason Center for Social Entrepreneurship is to help solve the world's social and economic challenges by preparing a new generation of social entrepreneurs through ground breaking approaches to teaching, networking and scholarship. The Center hosts the Accelerating Social Entrepreneurship Conference series, an annual convening of hundreds of leaders from diverse industry sectors to explore principles and best practices. Spillovers to other network members include helping all members of the network to have a social mission as well as a commercial one.



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The mission of the education curriculum as channelled through different academic units is to educate entrepreneurs on how to start businesses and to promote entrepreneurship and innovation in the VREC. These programs have been instrumental in helping students start businesses. There is knowledge sharing across academic units in the university also. For instance, the business school works closely with the engineering school. It has operated an entrepreneurship laboratory for management students that have contributed to the regional companies. Spillovers include business start-ups by students from all over the university and working with the other members of the network to commercialize technology.

The Center for Entrepreneurship and Public Policy operates as a think tank. The mission of the Center is to create public policies to promote economic development. The Center has created a tool to evaluate growth company performance in emergent and developing economies and provide advisory services to enhance the ability of countries to build growth companies to provide jobs for the bulging youth population. The Center works with all of the leading development agencies and universities in the world. Spillovers to other network members focus on helping with measurement and public policy issues in both developed and developing countries.

The VREC has built entrepreneurial capacity in the Virginia and Washington DC region by increasing the absorptive capacity of the region's human capital through entrepreneurship focused education programs. When combined with training in science, technology, trade and management, these efforts have resulted in two outcomes with respect to human resources. First, candidates who have established firms, commercialized technology and promoted economic development. Second, candidates who are skilled in the above mentioned areas. The VREC has reduced the cost of innovation in Virginia and has demonstrated its networking capabilities by linking the a large part of the state of Virginia into the community. Virginia has become one of the most dynamic communities in the United States.

#### **4. THE REC MODEL FOR DEVELOPING COUNTRIES**

As illustrated in the previous section, the VREC model has been successful in building and increasing capacity for private sector growth in the Virginia area. It gives us the ideal template to explain how the REC model can be applied in developing countries. Before we can explain the similarities and differences between Mason VREC model and one that



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might be suited to a developing country we need to provide a brief background; how does the state of Virginia in the United States differ from Malaysia for example and other emerging economies?

Most countries in the global economy in the mid-1900s faced a period of transition from a more or less planned economy to a market economy. In other words, these emerging countries needed to address their level of technology and the quality of their institutions. To bring up some early research, in his classic text, Rostow (1960) suggested that countries go through five stages of economic growth: (1) the traditional society; (2) the preconditions for take-off; (3) the take-off; (4) the drive to maturity; and (5) the age of high mass-consumption. While these stages are a simplified way of looking at the development of modern economies, they identify critical phases.

In order to understand the role that an REC can play in economic development, it is important to provide a backdrop. A generation's worth of work on the determinants of growth has put the cart before the horse, focusing on the factors that result in growth rather than on the dynamics of the societies within which growth occurs. As a consequence, for some time now, political leaders and policy-makers alike have systematically neglected the vital role of entrepreneurship in an economy's development. As Schumpeter described over a century ago, entrepreneurs are vital to economic development not because they take risks, but rather because they create 'new combinations' of economic activity. It is this new use of resources that leads to development. So how do economies acquire the capability to combine resources to create value?

Solow (1957) found that 87 percent of economic growth in the US for the period 1909-1949 could *not be* accounted for by the accumulation of traditional factors of capital and labor. The increase in productivity not accounted for by existing factors (capital and labor) is today called total factor productivity (TFP). The question is how does the growth of TFP come about? It comes about when people acquire the human capital to absorb new knowledge or use existing knowledge better. This is why economists often refer to TFP as technical progress.

TFP is a function of increasing the absorptive capacity of human resources, improving existing institutions and creating incentives for entrepreneurs. By institutions, we mean very loosely the arrangements that govern collective undertakings. Over the centuries, advanced countries have devised institutions that have allowed the accumulation of capital, have healthier lives, and better education. The effectiveness of an institution depends on the rules governing it and on whether its members obey the rules. TFP is dependent on the quality of



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knowledge and institutions. Knowledge and institutions, however, have to be combined as Schumpeter himself pointed out to produce what he called ‘new combinations’ of economic activity. Successful entrepreneurs are, by definition, builders of new production functions that take the form of new approaches to providing goods and services to society – that are innovations.

Influenced by recent developments in economics, Porter et al. (2002) have provided a modern rendition of this approach: By identifying three stages of economic development as opposed to growth: (1) a factor-driven stage; (2) an efficiency-driven stage; and (3) an innovation-driven stage and two transitions they have shifted the lens from growth to development. While Rostow focused on the *age of high mass-consumption*, Porter et al. following recent developments in the economics of innovation focuses on the *innovation-driven stage*. Historically, an elite entrepreneurial class appears to have played a leading role in economic development. Today we believe that entrepreneurs are also crucial for the *innovation-driven stage* as we outlined above.

The factor-driven stage is marked by high rates of agricultural self-employment. Countries in this stage compete through low-cost efficiencies in the production of commodities or low value-added products. Sole proprietorships – i.e. the self-employed – probably account for most small manufacturing firms and service firms. Almost all economies experience this stage of economic development. These countries neither create knowledge for innovation nor use knowledge for exporting. To move into the second stage, the efficiency-driven stage, countries must increase their production efficiency and educate the workforce to be able to adapt in the subsequent technological development phase. The drive to efficiency describes the first transition that is predominantly institutional in nature.

To compete in the efficiency-driven stage, countries must have efficient productive practices in large markets, which allow companies to exploit economies of scale. Industries in this stage are manufacturers that provide basic services. The efficiency-driven stage is marked by decreasing rates of self-employment. When capital and labor are substitutes, an increase in the capital stock increases returns from working and lowers returns from managing.<sup>6</sup> For over a century there has been a trend in economic activity – exhibited in

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<sup>6</sup> There are other, more simplistic, explanations for why self-employment may decline as economies develop. Improvements in the economy's infrastructure such as transportation, telecommunications, and credit markets probably increase the advantages of larger firms over smaller firms. Improvements in transportation and telecommunications make it cheaper to distribute goods and services over larger areas. Assuming there are scale economies up to a point, better distribution systems enable firms to operate larger production units that can serve larger markets.



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virtually every developing country – toward larger firms. The transition to the innovation-driven stage is characterized by increased activity by individual agents.

The innovation-driven stage is marked by an increase in knowledge-intensive activities. In the innovation-driven stage, knowledge provides the key input. In this stage the focus shifts from firms to agents in possession of new knowledge. The agent decides to start a new firm based on expected net returns from a new product. The innovation-driven stage is biased toward high value-added industries in which entrepreneurial activity is important.

Entrepreneurship differs from innovation because it involves an organizational process. Schumpeter provided an early statement on this. In recent years, economists have come to recognize the ‘input-competing’ and ‘gap-filling’ capacities of potential entrepreneurial activity in innovation and development. Entrepreneurship is considered to be an important mechanism for economic development through employment, innovation, and welfare. Baumol's (1990) observation is that entrepreneurship is also a resource, and that all societies have some amount of economic activity, but that activity is distributed between productive, unproductive, and destructive entrepreneurship. As institutions are strengthened, more and more entrepreneurial activity is shifted toward productive entrepreneurship strengthening economic development (Acemoglu and Johnson, 2005). This entrepreneurial activity explodes through the efficiency-driven stage and culminates in a high level of innovation with entrepreneurship leveling out.

We suggest that the REC model is applicable to countries both in the efficiency driven stage as well as the innovation driven stage since they both rely on the quality of human resources. The REC represents a set of institutions created around a university that increase the absorptive capacity of human capital to take advantage of knowledge inputs and therefore create the incentive structure for entrepreneurs to innovate. However, in a developed region like Virginia, the model uses knowledge created locally and then makes products that are integrated globally. In an emerging economy, like Malaysia, firms in the country might first need to acquire knowledge and technology from the global network through imports and licensing and then apply learning to innovate or manufacture to integrate into the global value chain. Thus, the role of absorptive capacity, technology transfer, innovation and entrepreneurship are crucial for economic development.

As indicated earlier, the REC is a model that can be transferred to a developing or emerging country. It is also a partnership where the institutions are networked in order to take maximum advantage of all of the agents in the network. The REC model utilizes the role of the university in a developing country and creates a local REC. This has its own board of



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directors and all of the local institutions models after the VREC model. The REC is first integrated into both the local and global knowledge networks by increasing absorptive capacity in the region.

Exactly which pieces of the Virginia model need to be set up need to be determined on a regional basis. It is necessary to first identify the phase of economic development of the country and the nature and level of its education programs, state of entrepreneurship, existing factors of production and other data which provide information on the base on which the REC can be reconstructed. Next, tools of analysis need to be utilized to modify the VREC model to fit into the context of that particular country. An example of one such tool is the Global Entrepreneurship and Development Index (GEDI) which provides monitoring on 33 variables deemed crucial to economic development. The Index allows tracking the extent to which countries are internationalizing, creating growth companies, product and process innovation, opportunity perception, networking and cultural support. The next step is to identify a regional university which is recognized as a leading and influential academic institution in that country. A central board similar to the Entrepreneurship Council at Mason should be formed. The board should comprise of representatives from the local government bodies, larger private sector firms in the region, global organizations, non-governmental organizations and other community actors who can advise the REC and also serve as useful sources of information and nodes in a network. It is also crucial to form collaborations with foreign universities and firms for different types of support. The following stages include establishing education programs possibly in conjunction with foreign universities so that best practices can be transferred from the foreign universities to the REC, setting up incubators and technology transfer offices to support start-ups, forming government liaison offices and other units that might be needed in the regional context to provide support.

## 5. IMPLICATIONS OF THE REC MODEL

Although we conceptualized the REC as a 'regional' model, we suggest that it bears implications for scalability, sustainability, transferability and the lowering of costs. The REC model can be set up in as many countries and or universities as needed creating both a real laboratory and a virtual network at the same time. Organizations or governments that take on the task of establishing RECs should ensure that multiple RECs are linked together. There are two ways in which linked or networked RECs can lower costs. The first set of cost savings come from spillovers and sharing the cost of acquisition of educational curricula, the cost of



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facilities for incubators and offices and the cost of leveraging the existing network of government, non-government and private sector contacts. Second, the sustainability of the model lowers its costs of operation. The model is sustainable because it reduces the cost of acquiring the needed knowledge inputs, it reduces the cost of integrating knowledge, it focuses on absorptive capacity, has a low cost of management and constant monitoring. We consider the sustainability aspect to be the key distinguishing element of the REC model. The model is sustainable because it is an eco-system for entrepreneurship. Once established with external support and funding, the REC produces and grows private sector firms that are innovative and entrepreneurial. The firms later feed back into the system and provide revenue to the REC through rental fees, grants, royalties and similar means. Furthermore, the firms also create jobs, employment and raise income in the region all of which have a positive impact on economic development. In this way, the model is sustainable.

An additional extended benefit of RECs is that they can be linked across nations as well further lowering their costs of operation and enhancing their synergistic effect. In this manner, capabilities can be acquired at reduced cost and best practices developed.

Another implication of the REC model is its utility to other global actors. The model could be supported by and supports the efforts of several different agencies. First, it offers development agencies cost effective ways to scale otherwise unwieldy projects. Second, it offers international consulting firms new business opportunities. Third, it provides a mechanism for emerging market economies to move up the global value chain by creating and taking advantage of entrepreneurship. By focusing on growth companies that provide high value added goods countries would be creating tradable goods that lead to higher wages and employment. The REC model thus promotes and 'prepares the ground' for private sector development, one region at a time. Private sector development is the key to future economic and social development as it generates not only jobs and innovation but also provides tax revenues for government services. Without this aspect of development, economies are not sustainable.

The REC provides citizens, communities, business and government a way to work together to create and sustain sustainable societies by providing a proven model of private sector led development. Governments for their part need to create an enabling environment. Without private sector development where entrepreneurship and innovation propel economies forward, development cannot take place, which is a well-established argument today.

## CONCLUSION

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Through our model, we demonstrate that RECs can lower some of the cost that is inherent in entrepreneurship by increasing the social returns as well as the returns to economic activity. Furthermore, RECs established in multiple nations are linked to operate as a system with autonomy and knowledge sharing in order to enhance these benefits. RECs are able to capture the benefits of concentration due to positive information and coordination externalities within the region but also the benefits of scale because of the greater ease of knowledge sharing across regions.

We illustrate that through RECs, nations are able to upgrade the skills of human resources, raise firm productivity, lower the costs of doing business and overcome the institutional bottlenecks, thereby encouraging private sector growth. Achieving these objectives enables nations to move up along the economic ladder. Our study also informs policies to create improved incentives for private sector growth in multiple sectors.

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## ***HYPOTHESES NON FINGO***

### **7SCHUMPETERIAN ENTREPRENEURSHIP AS “CAPITALIST DIALECTICS”**

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#### **Abstract**

#### **1. Introduction**

Underlying hypotheses and observations, Schumpeter states in the early German edition of his seminal “Theory of Economic Development” (1912)<sup>1</sup>, were not invented or merely fictitious, but taken and gleaned from economic reality in contrast to – then - prevailing equilibrium oriented and essentially “static” views of interpreting the market based capitalist process as “conditioned by given circumstances” (as he subtitled the very first chapter). Thus, the telling motto right on the title page of the first edition: “Hypotheses non fingo”. (As such never appearing again in any later issues, including the English translation of 1934; see Annexes 1 and 2.)

From hindsight one might be left wondering as to what, in fact, makes Schumpeter’s early conceived vision of the leadership role of the entrepreneur in “economic life” still so very topical, if not to say outright indispensable for explaining the dynamics of the “capitalist” system. In recognizing role and importance of entrepreneurially driven innovation with related forces of “creative destruction” as intrinsically market based phenomena, Schumpeterian notions indeed seem to have gained new momentum in today’s economic debate for the very understanding of entrepreneurial by driven systems, including competitive entrepreneurial behaviour with emphasis also on related entrepreneurship education<sup>8</sup>. All that against a bibliographical background of his “Theory” which - intermittently nearly forgotten,

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<sup>1</sup> *Newly edited and reprinted with an “Introduction” by J. Roepke and O. Stiller (2006). References and quotations in the following are being identified, respectively: if relating to the earlier German editions (in particular, the first or second) as “Theorie” followed by year; if relating to the English version as “Theory” (1934 or reprints). Quotations translated from the German editions being either omitted or referred to only passim in the 1934 English version, are marked “transl. J.H.P.”*

<sup>2</sup> *Witness the numerous university chairs and programs on “entrepreneurship” having sprung up, and still expanding, over the past decades. Cf. more recently also Thomas K. McCraw (2007) with extensive references to Schumpeter’s “Legacy”; or the relevance of innovative elements and factors in the context of the New (endogenous) Growth Theory (cf. P.M. Romer, 1990, et al.), as well as distinct Schumpeterian traits in the relatively new discipline of “Evolutionary Economics”.*

widely misread or misinterpreted - took fully 14 years until its second, in parts radically revised and modified edition in 1926.<sup>9</sup>

Schumpeter explicitly voices his irritation in the foreword to the second edition that readers of the earlier version obviously “mistook” the book as a kind of “history” of economic development in line with the – methodologically more descriptive – German “Historical Schools” to which, nonetheless, the very flow and partly rather verbose style of the original text undoubtedly shows a certain affinity. In restating and emphasizing the theoretical thrust of his argument, the somewhat lengthy subtitle<sup>10</sup> was added from the second edition onwards (and retained also in the English translation) to bring home the very essence together with substantial revisions to the core second chapter on “The Fundamental Phenomenon of Economic Development”.<sup>11</sup>

In the context of such revisions Schumpeter, in our view, perpetrated two “sins”: Firstly, by trying to schematize, thereby narrowing down and kind of “sterilizing”, in the second chapter the very role of the entrepreneur to the meanwhile famous, again and again being referred to, “five cases” in “the carrying out of new combinations”;<sup>12</sup> as such conveying a rather bloodless, sort of descriptive “listing” of implied entrepreneurial traits and “characteristics” lending itself to a rather limited, yet tempting interpretation as a sort of proxy for defining the “Schumpeterian entrepreneur”, quite in contrast to the full blooded picture so vividly painted in the original version refraining from such schematization. Secondly, by omitting the entire seventh chapter (from 1926 onward)<sup>13</sup>, wherein Schumpeter tried to put his vision and overall conceptualization in a systemic context by way of a “holistic” topping off in form of a socio-economic synopsis to the expositions in the preceding chapters. It

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<sup>3</sup> As essentially the basis for the subsequent English translation, published 1934 at Harvard after the 3<sup>rd</sup> and 4<sup>th</sup> - both largely unchanged - German printings (1931, 1934).

<sup>4</sup> In German: „Eine Untersuchung über Unternehmergeinn, Kapital, Kredit, Zins und den Konjunkturzyklus“; in English: „An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle“ („Profits“ to be understood entrepreneurial or “private”).

<sup>11</sup> In German: “Das Grundphaenomen der wirtschaftlichen Entwicklung” (Theorie 1912, 103-198; 1926, 88-139; Theory 1934, 57-94).

<sup>12</sup> Theorie 1926, 100f.; Theory 1934, 66, by contrast to the German version not explicitly being “listed”, but less conspicuously integrated in the text as such (see Annex 3).

<sup>7</sup> In German: “Das Gesamtbild der Volkswirtschaft“ (“Overall View of the Economy“, transl. J.H.P.), Theorie 1912, 463-548.

seems a pity that, especially the English reader, remains deprived of a possibly still more comprehensive and deeper understanding of the very thrust of the Schumpeterian message even if, admittedly, this chapter (of nearly 90 pages in the German original) might appear less rigorously argued.

## 2. A “Theory” against the mainstream

In order to fully appreciate the very boldness of Schumpeter’s message, his “Theory” needs to be viewed in light of the prevailing mainstream of economic thought at time of its first publication. Classics and Neoclassics, notably of the Viennese marginal (“Grenznutzen”) tradition with Eugen v. Boehm-Bawerk and Friedrich v. Wieser as principal advisers to Schumpeter’s habilitation at the Vienna University<sup>14</sup>, clearly were dominating the discipline’s common body of knowledge; and so was Marx’ quite different, non-market based (“socialist”) interpretation of the economic process, all of which Schumpeter was well familiar with, while more specifically having been exposed, of course, to neoclassical thinking in the Viennese academic “style”. His habilitation thesis as mentioned, submitted in 1908, indeed was devoted to a theoretical treatment and discussion of the “state of the art” at the time, including a rather shrewd reception and re-interpretation of Walrasian equilibrium as an exposition of “pure economics” on essentially static grounds.<sup>15</sup>

These scientific environs and ingredients are important to note as points of departure in Schumpeter’s own “Theory”, wherein his critical stand against the prevailing “mainstream” finds ample expression right in the first chapter<sup>16</sup> by pointing at the intrinsically static, “circular flow”-type view of “economic life” and voicing his discontent over the obvious deficiency of such theorizing to adequately capture and explain the underlying dynamics of the market based “capitalist” process. By contrast, he explicitly commends Marx as - with his

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<sup>14</sup> Based on his first book, entitled: „Das Wesen und der Hauptinhalt der theoretischen Nationaloekonomie“, Leipzig 1908 („The Nature and Content of Theoretical Economics“), repeatedly also being referred to (as „Wesen“ for short) in Schumpeter’s subsequent „Theorie“.

<sup>15</sup> Cf. Walras, L.: *Elements d’économie politique pure ou théorie de la richesse sociale*, Lausanne 1874-77; English translation by Jaffe, W.: *Elements of Pure Economics*, Homewood, Ill.-London 1954.

<sup>16</sup> Entitled “The Circular Flow of Economic Life as Conditioned by Given Circumstances”, *Theory* 1934, 3-56; in German: “Der Kreislauf der Wirtschaft in seiner Bedingtheit durch gegebene Verhältnisse”, *Theorie* 1912, 1-102. Already the “Physiocrats”, Schumpeter argues, in grasping “the fact of circular flow ... ipso facto describe a static economy ... And this remained the objective of pure economics to our days.” Also with A. Smith, “wherever his arguments rest on firm ground, his view is essentially static ... Wherever he speaks of progress, he never explains this on the basis of economic processes in themselves ...” (*Theorie* 1912, 92ff., transl. J.H.P.)

(dialectic) methodology - being able to indeed grasp the intrinsically dynamic nature of “economic development.”<sup>17</sup>

To mention as of specific relevance in this very context is Eugen v. Boehm Bawerk’s profoundly neoclassical - and pointedly anti-Marxian – “The Positive Theory of Capital”<sup>18</sup> as for Schumpeter yet another bone of contention and point of critical departure since, despite its erudite theoretical reasoning, again resting on essentially “static” grounds and, therefore, bound to miss the intrinsic nature of “capitalist” dynamics. (For an ingenious early re-interpretation of “The Positive Theory” with Boehm-Bawerk’s subtle theorizing on the “roundaboutness” of capitalist accumulation by his contemporary Swedish economist Knut Wicksell see graphical illustration, Annex 4.)<sup>19</sup>

It is against such background and dissatisfaction with mainstream “circular flow” concepts as prevailing then, that Schumpeter’s own “Theory” evolved and took shape: as a theoretical - and in its endeavor similar to Boehm Bawerk’s preceding, albeit “static” - attempt to, for his part, provide a non-Marxian dynamic interpretation of capitalist “development” driven by its inherent systemic forces “from within”.<sup>20</sup>

We shall try in the following to pinpoint – against such background - what seems to emerge as a kind of “hidden agenda” behind Schumpeter’s vision rendering it such lasting a legacy for interpreting capitalist development and its dynamics.

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<sup>17</sup> „The only major attempt toward the problem of development is the one of Karl Marx... He strived to treat the development of economic life itself on basis of economic theory. His accumulation, his immiserization, his crisis theories follow from pure economic reasoning ... aiming at the evolution of economic life as such ... not just its circular flow ...” (Theorie 1912, 98; transl. J. H. P.) And if he “had not been more than a purveyor of phraseology, he would be dead by now. Mankind is not grateful for that sort of service and forgets quickly the names of the people who write the librettos for its political operas.” (Schumpeter, 1942, 5.)

<sup>18</sup> Translated with a “Preface” by W. Smart, London-New York 1891. German original: “Positive Theorie des Kapitals (1889), as Vol. 2 of “Kapital and Kapitalzins”; a center piece till today of neoclassical capital theory, which propelled its author to international fame. Boehm-Bawerk by the way, as Schumpeter states himself, never really approved of his “Theory” (cf. Theorie 1926, “Vorwort”).

<sup>19</sup> Cf. Wicksell, K. (1893).

<sup>20</sup> “By development, therefore, we shall understand only such changes in economic life as ... arise by its own initiative, from within.” (Theory 1934, 63.) “Development in our sense is then defined by the carrying out of new combinations.” (Ibid., 66; with the “five points” to follow, see Annex 3.)

### 3. Toward entrepreneurially driven “capitalism”

In taking a profoundly critical stand against mainstream “statics”, Schumpeter in his “Theory” endeavors to depict market based (long term) “economic development” as an ever changing - and as such never toward equilibrium tending - process of “economic life” generally. This, in fact, constitutes the all pervading thrust of his argument; and indeed no one – apart from Marx in his systemic theorizing – has done so before in a similarly rigorous fashion which, no doubt, lends such seminal and lasting fascination to his “Theory”.

The essence of capitalist dynamics, in Schumpeter’s view, thus boils down to a continuous pursuit of “carrying out ... new combinations”<sup>21</sup> as an entrepreneurially driven process which proves “that economic life never is static; it lies in the very nature of development.”<sup>22</sup> The question then arises: who is “carrying out”, what stands for the “new” and how are “new combinations” being carried through?

Schumpeter’s straightforward answer to that is: the entrepreneur, being depicted and singled out in the very “Schumpeterian” meaning (or “in our sense” as he repeatedly emphasizes). In any given economic moment or situation, so his argument, there exist “numerous possibilities for new combinations”, yet only a small group has the drive and takes “leadership” to, in fact, carrying them through, while “most do not see them”.<sup>23</sup> Thus, “... the carrying out of new combinations is a special function ... of people who are much less numerous than all those who have the ‘objective’ possibility of doing it. Therefore, ... entrepreneurs are a special type, and their behavior ... the motive power of a great number of significant phenomena.”<sup>24</sup>

Hence it is, with Schumpeter, the entrepreneur - and only he - who “leads’ the means of production into new channels ... drawing other producers ... after him“, thereby rendering “a service, the full appreciation of which ... is not so easily understood by the public at large”.<sup>25</sup>

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<sup>21</sup> *Theory* 1934, 66.

<sup>22</sup> *Theorie* 1912, 162 (transl. J. H. P.).

<sup>23</sup> *Theorie* 1912, 162 (transl. J. H. P.).

<sup>24</sup> *Theory* 1934, 81f.

<sup>25</sup> *Ibid.*, 89; yet, such „leadership in particular ... must be distinguished from ‚invention‘. As long as they (inventions, J. H. P.) are not carried into practice, inventions are economically irrelevant.“ (*Ibid.*, 88) However: „In as much as the carrying out of new combinations constitutes form and substance of development, so much so is the leader’s initiative its driving force.“ Alas, not all are „equally far sighted and energetic ...“ (*Theorie* 1912, 162, footnote; transl. J.H.P.)

From there it follows, “the most typical incorporation of future value creating potentials is a new enterprise ...”, and the “specific type” as characteristic for “a special class of economically active individuals has taken on a name of its own, namely **entrepreneur**.”<sup>26</sup> The entrepreneur as the driving or “leading” force in economic life, be it as “business founder”<sup>27</sup> or as “creative innovator” who through “anti-hedonist”<sup>28</sup> activity and initiatives creates future values. “They (these values, J.H.P.) correlate with new combinations, ... new combinations translated in value terms ... the shadows of things to come ...”<sup>29</sup>

In carrying out new combinations, the entrepreneur, firstly, singles out from a “multitude of various moments ... the related right decision ... which is given to few people only with specific capabilities, and secondly, carries them through. These are the characteristics of our entrepreneur, of our man of action. They are inseparable and of equal importance. And the result is economic development, progress”<sup>30</sup>; development or progress being triggered by “our type” of (Schumpeterian) entrepreneur.

#### **4. Uncovering the subtlety of implied “dialectics”**

The role of the Schumpeterian entrepreneur, as inseparably being geared to the very essence of “economic development”, thus resembles a kind of “hidden” form of what might be called Schumpeterian “**dialectics**” for interpreting the dynamics of capitalist development from a (non-Marxist) systemic perspective.

The market system itself, under “given circumstances”, thereby constituting the **thesis**; the entrepreneur in the Schumpeterian sense as the driving (also the “creatively destructive”) force being the **antithesis** to the system, ever striving to “out compete” given circumstances by way of new combinations and thus - temporarily at least - trying to be or to become a kind

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<sup>26</sup> *Theorie 1912, 170f. (transl. J. H. P.); or somewhat more barren in the English version later on: „The carrying out of new combinations we call ‘enterprise’; the individuals whose function it is to carry them out we call ‘entrepreneurs’.” (Theory 1934, 74)*

<sup>27</sup> *In merciless Schumpeterian understanding: If a business founder merely continues to manage his „enterprise ... in simply a static way, he ceases to be an entrepreneur!”. His very nature “is linked to creating (to combining, J. H. P.) something new.” (Theorie 1912, 174, footnote; transl. J. H. P.)*

<sup>28</sup> *Theory 1934, 94; the entrepreneur as – in a “non-hedonist” way - ever being absorbed by “the joy of creating, of getting things done, or of just exercising ... ingenuity.” (Theory 1934, 93)*

<sup>29</sup> *Theorie 1912, 170 (transl. J. H. P.).*

<sup>30</sup> *Theorie 1912, 177 (transl. J. H. P.).*

of “monopolist”;<sup>31</sup> finally, the **synthesis** of such a scenario to be seen in prevailing market forces tending forever to catch up with, to “compete down” temporarily dominating entrepreneurial initiatives provoking, by force of such process, entrepreneurial creativity yet anew in trying to tackle or outmanoeuvre the system “from within” and, as such, quite distinct from Marxist “dialectics”.

The entrepreneur in such a scenario takes on the role of unsettling “disequilibrating”, as an ever disturbing element to static or “circular flow” tendencies toward equilibrium in the very sense of “creative destruction”; as a movens of forever challenging the system “conditioned by given circumstances”,<sup>32</sup> of constantly trying to trick competitive market constraints and forces through innovative “new combinations” providing thus the intrinsic drive for (Schumpeterian) “economic development”.

Different from Marx, different also from the classical-neoclassical and as such essentially “static” concepts, Schumpeter in his “Theory” boldly presents an alternative (non-Marxist) interpretation of the “capitalist” process with the entrepreneur taking center stage. It is this very boldness too, which in good measure seems to account for the lasting relevance, if not to say fascination of his “Theory” up til now (shortly, by the way, to celebrate the 100 year anniversary since its first printing).

## **5. Legacy and topical relevance in today’s perspective**

By provocatively casting the entrepreneur – traditionally being considered the “epitome” of capitalism itself – as sort of villain or “antithesis” to the market system with its “mainstream” proclaimed tendencies toward (static) equilibrium, amply testifies to the originality of Schumpeter’s own theorizing. Thereby depicting the specific role of the entrepreneur under systems-related aspects further implies that the very same (“capitalist”) system essentially derives its inherent strength and dynamics from ever self-renewing entrepreneurial drive and initiatives; dynamics and strength, in the end, for sustained reproduction of the system as such out of its own forces, or “from within”.

Notwithstanding Schumpeter’s later skepticism under changed economic conditions in the face of World War II whether entrepreneurially led capitalism indeed may “survive”,<sup>33</sup> we today can witness a sheer global revival of Schumpeter’s early vision: be it in form of a new and growing awareness of the need for entrepreneurial initiatives, values and attitudes as

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<sup>31</sup> *Since, with Schumpeter, „perfect competition“ temporarily always having been „suspended whenever anything new is being induced ...“, thereby providing „the fundamental impulse that sets and keeps the capitalist engine in motion.“ (Schumpeter, 1942, 104f.)*

<sup>32</sup> *Cf. heading of the very first chapter of the “Theory” (in German: “...Bedingtheit durch gegebene Verhaeltnisse”; Theorie, both 1912 and 1926).*

<sup>33</sup> *Cf. his famous „Capitalism, Socialism and Democracy” (1942) and numerous related references; it is in this his later work (not in his “Theory”) wherein Schumpeter explicitly coins the popular and much cited phrase of “creative destruction” (later on back-translated into German as “schoepferische Zerstoerung”).*

crucial for sustainable development and more broadly based welfare; be it in recognizing the specific relevance of “entrepreneurship education”, or the importance of diversified entrepreneurially based small and medium sized business structures; be it in the context of fostering business start-ups combined with venture capital financing and concomitant tendencies toward privatization worldwide (including related emphasis on economies “of scope” rather than just one-sidedly “of scale”)<sup>34</sup> – this all relates to the very notion of Schumpeterian “entrepreneurship” as being reflected in entrepreneurially driven initiatives, creativity and “leadership”. Leadership that in any market based system stands for structural diversification, for sustained viability and capabilities of success and sheer systemic “survival” under competitive conditions.<sup>35</sup>

From a contemporary perspective, relevance and importance of Schumpeter’s vision nowadays seems to be demonstrated vividly in the ongoing - and partly still painful - restructuring from formerly centrally planned to market oriented systems in Central and Eastern Europe. A transformation whereby the final verdict over success or failure in large measure hinges on how effectively these economies are capable to build and rebuild their over decades ruthlessly weakened, if not outright ruined entrepreneurially based business structures as a prerequisite for economic dynamics and sustained development in an increasingly competitive environment with more and more diversified markets.<sup>36</sup>

More than ever, as it seems, can under today’s regional as indeed world wide challenges Schumpeter’s erstwhile vision serve as a valuable guide, as a kind of compass with a view to policy formulation for entrepreneurially conducive framework conditions, or more bluntly still: for creating conditions wherein entrepreneurial initiatives, creativity and leadership in the very Schumpeterian meaning can thrive and adequately are being rewarded. To conclude on that note in Schumpeter’s own words: “Look around - and you will see, things really are like that.”<sup>37</sup> Or in conformity to his early motto again: “Hypotheses non fingo.”<sup>38</sup>

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<sup>34</sup> Cf. Aiginger/Tichy (1984).

<sup>35</sup> Cf. Heertje, (1981); Heertje/Perlman (1993); Heilbroner (1993); Scherer (1992); Scherer/Perlman (1992).

<sup>36</sup> Cf. Becker/Knudsen (2002); Backhaus (2003); Giersch (1984, 1987); Scherer (1999); Shionoya/Perlman (1994).

<sup>37</sup> *Theorie 1934, „Vorwort“ (Preface) to 4th German printing (transl. J. H. P.).*

<sup>38</sup> *See Annex 1; as kind of an invitation to scientifically „creative destruction“ Schumpeter, by the way, sums up the preface to the first edition wishing for himself „nothing more that this work as soon as possible be rendered obsolete and forgotten.“ (Transl. J.H.P.) – And this invitation, after now almost 100 years, apparently still holds.*

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# **Is Founder Effect Prevalent in Malaysia Family Firms? From the Perspective of Corporate Acquisitions**

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## **Abstract:**

### **Objectives:**

Examine if there are significant relation between founder and family firms stock returns during corporate acquisition announcements period. Do later-generation-managed family firms perform well or worse during those announcements period?

### **Theoretical Background/Previous Practice:**

There is a Chinese proverb stating a curse about family businesses that “*Wealth does not pass down through three generations*”. Literatures have shown that the good performances of family firms are due to the presence of founders who are still active with the management of family businesses (Miller et al., 2007, Anderson and Reeb, 2003). Do such findings in other developed stock market are applicable to Malaysia stock market?

Furthermore, the relation between concentrated shareholdings by family owners and firm performance has been ambiguous. There have been inconclusive inferences whether large shareholdings by family owners-managers are able to mitigate the potential agency problem, or induce interest alignment with other shareholders of family firms.

### **Approach/Methods:**

Event study methodology is employed to examine family bidder returns during announcement period. Univariate analysis examines individual factors that constitute positive family stock performance. Cross-sectional analysis via linear regression is used to examine any significant relation between founder and stock returns, while controlling for other factors that univariate analysis do not consider.

466 corporate acquisitions during the period 2002-2011 attempted by listing Malaysia family firms are employed for this study.

### **Results/Insights:**

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Inconsistent with previous literature finding that founder effect is prevalent in inducing better firm performance, this paper documented that descendent-managed family firms experience significant positive stock returns during the M&A announcement periods. These findings have not yet been documented in the literature, but supported previous literature findings of the positive relation between descendent and family firm performance.

Descendent-managed family firms are also found to mitigate agency problem, when measured via the concentration level of family shareholdings, free cash flow and related-party acquisitions.

In contrast, for family firms managed by 1<sup>st</sup> generation, whether alone or with later generations, agency problem are found to exist when observed via the effect of their M&A investment decisions on family firm stock returns during announcement period. The case is especially prevalent for such family firms with abundance level of free cash flow and low investment opportunities.

Family firms managed by 1<sup>st</sup> generation with low investment opportunities and high level of free cash flow would prefer to invest in non-value adding investments instead of distributing the cash flow back to the shareholders.

### **Implications:**

The findings have implication to the sustainability of family businesses where transfer of control and ownership of corporate resources from generation to generation is inevitable for family businesses. The inabilities of later generations to manage family firms not only pose threats to family businesses, but also indirectly affect society economies.

However, the findings in this paper reveal that sole-descendent managed firms induce significant positive effect on family firm stock returns during announcement period. Descendent managed firms made better investment decision than their predecessors.

The findings also contribute to the literature whether agency problem is prevalent in Malaysia family firms. As agency problem induce worse firm performance, this help policy maker to decide if stronger corporate governance measures are required for Malaysia family firms. In this case, attention is needed when mandating the application of corporate governance for family firms managed by 1<sup>st</sup> generation, especially for family firms with abundance level of free cash flow with low investment opportunities.

**Keywords:** Agency problem, Malaysia family firms, bidder returns, event study methodology, founder effect, abnormal returns

## **1. Introduction**

Recently, considerable amount of studies have been directed towards family firms after the astounding findings by La Porta et al. (1999), followed by Claessens et al. (2000) and Faccio

and Lang (2002). They have discovered that many firms around the world are controlled by concentrated shareholders, typically states or families, instead of the Berle and Means (1932) version of widely-held corporate.

Consequently, the performance of family firms has gained burgeoning attention in the literature on business strategy and financial economics (Mazzi, 2011), with no consistent conclusion whether family firm perform better (San Martin-Reyna and Duran-Encalada, 2012, Astrachan, 2010).

Past findings indicate that family firms perform better than non-family firms, and often, the better performance of family firms is due to founder effect (Anderson and Reeb, 2003, Miller et al., 2007).

There are studies that also direct their focus on family firm investment decisions and firm performance, specifically on M&As (Ben-Amar and André, 2006, Basu et al., 2009, Feito-Ruiz and Menéndez-Requejo, 2010, André et al., Dutta and Jog, 2009, Fahlenbrach, 2009, Sraer and Thesmar, 2007)

With the purpose of seeking understanding in the relationship between strong family ownership and performance, attention has been directed to the relationship between family ownership and the value creation of their investment decisions in M&A, and specifically for the case of Malaysia.

M&As provide sufficient observable outcomes of the investment decision attempted by family bidders.

Jensen and Meckling (1976) mentioned that the inherent conflict of interest between managers and shareholders in large public corporations can be intensified by acquisitions.

Past significant established studies have examined via M&A, if managers are acting in the interests of shareholders (Morck et al., 1990, Lang et al., 1989, Lang et al., 1991, Andrade et al., 2001).

Using various proxies to examine the present of agency problem, past findings overall recognize that managers do not always make shareholder value-maximizing acquisitions.

This brings to the attention if the special owner-manager structure of family firms would experience similar situation, that the family owner-manager also do not make value-added acquisitions.

Owner-managed companies are common among listed companies in Malaysia, especially with family businesses (Haniffa and Hudaib, 2006). High concentration of ownership are also found to exist in Malaysia listing firms (Claessens et al., 2000, The World Bank Group, 1999).

With specific socioeconomic and cultural aspects of Malaysia, we seek to perform further research if past findings regarding shareholder wealth effect of acquisitions, agency problem, and bidder returns' determinants are applicable to Malaysia stock market and family firms. These discovered new evidences will be valuable to Malaysia family firms and Malaysia stock market.

## **2. Objectives**

Examine if there are significant relation between founder and family firms stock returns during corporate acquisition announcements period. Do later-generation-managed family firms perform well or worse during those announcements period? What characteristics of family firms' acquisitions are favoured by Malaysia stock market that would induce positive stock reaction?

## **3. Methods**

The sample period of acquisition announcements covers 10 years (Year 2002 – 2011).

The requirements imposed on Malaysia family firms yield a sample of 170 firms examined in this study.

A view back to past literature have presented that there are no reconciled definition for family firms, whilst continuous effort has been made (Sharma et al., 2012).

The prevalence and impact of family firms has been found to vary significantly depending on the definition used in past studies.

Miller et al. (2007) have provided a comprehensive compilation on definitions of family firm used in past literature. They reveal that the definition employed for family firms depends on the nature and objective of the study.

As mentioned in Section 3.2, family firms are characterized by a concentration of ownership, control and holding of key managerial positions by family members, and intergenerational transfers for all of these again (Bertrand and Schoar, 2006, Litz, 1995).

With reference to the past literature, for this research, the sample firm is considered as a Malaysia family-controlled firm when it is a public firm listed on *Malaysia Stock Exchange* at main board, with one or more family members taking managerial roles in the public firm, and the family as a unit must be the largest shareholder of the public firm.

Such definition fulfils the basic definition of family firms that are characterized with concentration of ownership, control and managerial positions held by family members.

In simpler term, the family as a unit must be

- 1) The largest owner of Malaysia listing family firm;
- 2) With more than one family member managing the company together; and
- 3) Involve in the management of the business via holdings of managerial position(s) on board. The positions on board include the position of chairman, CEO, managing director or executive director;
- 4) In the case when there is only one family member on board, this family member must be either the successor to the generation before. The successor in this case must be family-related to the generation before, who can be either the children or grandchildren of the generation before them, or niece and nephews; or
- 5) In the case when there is only one family member holding managerial roles but not meeting criteria (4), this family member must be family-related to the largest shareholder of the public firm. This normally applies to the case when one of the family members holds the largest shares whilst another sibling is in charge of managing the family businesses. These includes among siblings, spouses, uncles and nephews or mother and children.

Different threshold has been imposed on family shareholding when researching the sample family firm in the literature that can range from a minimum family shareholding of 5% to 50%.

In this study, in view that family as a unit must hold sufficient shareholdings to have enough voicing power, a 20% threshold of family shareholding is imposed (Faccio and Lang, 2002, Faccio and Stolin, 2006, La Porta et al., 1999).

Family members examined in the study include those among spouses, siblings, cousins, uncles and nephews, parent and children, 1<sup>st</sup> and 2<sup>nd</sup> generation and so forth.

The family unit must be the largest shareholder of the examined firm to exhibit that they have significant voicing power over family firm business directions.

Data Source for family information comes from Annual Report under the section *Profile of Directors* and *Analysis of Shareholdings*.

To examine the short-term wealth effect of acquisition announcement on family bidders, abnormal returns are needed to be generated to observe if any returns deviate significantly from the expected returns.

Event study methodology is then needed to generate and examine the abnormal returns. The abnormal returns are normally cumulated to examine the cumulative effect of stock market reaction during the announcement period,

With the generated abnormal returns, univariate analysis can be performed to observe any significant correlation between the abnormal returns with specific traits. The traits examined here include ownership characteristic, board structure, corporate governance mechanisms and family firm traits.

However, the shortfall of univariate analysis is that certain traits are not controlled. And thus, the observed significant traits may be due to other uncontrolled factors.

Therefore, multivariate analysis is also performed to control for other factors that are deemed as possible having strong correlation with the announcement period abnormal returns.

Base on past findings from the literature, below is the baseline regression model considering those relevant determinants of acquirer returns that are found to be significant in the literature:

*Family bidder returns = f (Ownership structure, Corporate governance measures, Bidder traits, Target characteristics, Deal features)*

As event study methodology is itself another field of literature, below discusses the application of event study methodology in detail.

Short-term event study methodology involves the analysis of stock price movement before and subsequent to the day of examined announcements, or events. The information content of the announcement is tested using this methodology. There are three steps generally involved:

- i. Determination of event window and estimation period
- ii. Calculation of abnormal returns or benchmark-adjusted returns
- iii. Aggregation of abnormal returns or benchmark-adjusted returns

### **I. Determination of event window and estimation period**

Khotari and Warner (2004) indicated that the length of the estimation period is arbitrary. It has to be long enough to contain a reasonable number of observations to estimate the parameters of the model and short enough to avoid an eventual instability of the parameters.

Estimation period is essential in generating relevant parameters from the employed return-generating model.

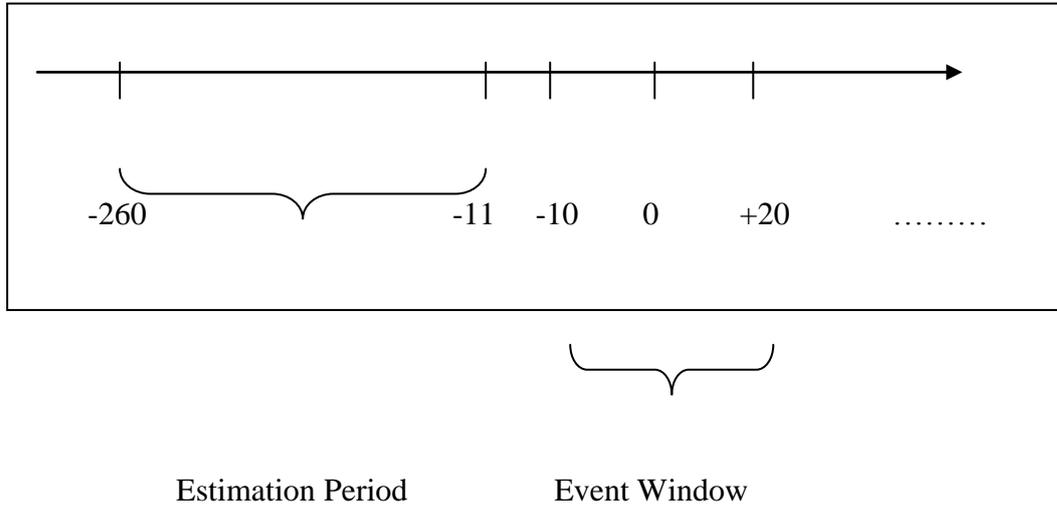
It has been mentioned that past literature when employing event study methodology use a length between 120 days and 250 days (Dyckman et al., 1984, MacKinlay, 1997) and 200 days (Corrado and Truong, 2008) for estimation period.

This paper employs 250 days as estimation period of the employed return-generating model.

On length of event window, past literature have shown different length of event windows in examining short-term stock market reaction to M&As announcement, that can range from as far back as Day -60 to Day +60 (Martynova and Renneboog, 2008, Tuch and O'Sullivan, 2007).

This paper adopt an event window of Day (-10) to Day (+10) with Day 0 as announcement day, allowing observation on stock market movement two business weeks before and after the event day. Event day also refers to Day 0.

**Figure 1: Time Line for Event Study**



In summary, for each security event, abnormal returns are generated via parameters estimated using market model. We obtain estimates of the market model using 250 trading days of return data, beginning from 260 days before and ending 11 days before the acquisition announcement. Figure 1 provides a graphic of this event study time line.

## II. Calculation of Abnormal returns or Benchmark-adjusted returns

The difference between the ex post actual returns and the expected stock returns are examined for market reactions. This can be specified as:

$$AR_{it} = R_{it} - ER_{it} \quad (1)$$

, where  $AR_{it}$  represents a stochastic error term that has an expected value of zero and is uncorrelated over time.  $R_{it}$  is the actual return of security  $i$  on day  $t$ .  $ER_{it}$  is the expected return for security  $i$  on day  $t$ .

## Abnormal Returns

Abnormal returns can be interpreted as the unexpected portion of an event that is incorporated into the announcing firms' stock prices. It is also interpreted as the information content of the event. The expected returns,  $ER_{it}$ , in this case can also be referred as *normal returns or predicted returns*, which are assumed as the supposing returns when the unexpected announcements or new information are not released to the public.

## Expected Returns

The  $ER_{it}$  can be estimated from various return-generating models. Similar model need to be employed in this study for comparison purpose of the results with previous literature.

*Return-generating models* employed in the literature are generally assumed in the literature to be the actual returns generating process. Parameters need to be estimated using return-generating models with either ex-post or ex-ante returns surrounding the announcement periods, to generate,  $ER_{it}$ .

For those periods using the ex-post or ex-ante returns to estimate the parameters, they are referred as *Estimation periods*. The reactions from the stock market are observed during the *event window*.

The *event window* refers to those few days or weeks before and after the announcement day. The announcement day usually are specified as Day (0) or day zero, the day when the announcements are formally released and made available to the public.

Literature mentioned that abnormal returns constructed from the market model have become an almost universal return measure used in short-term event studies (Corrado and Truong, 2008, Strong, 1992).

Thus, with reference to past literature, the widely employed market model is also employed in this study (Campa and Hernando, 2004, Martynova and Renneboog, 2008, Tuch and O'Sullivan, 2007).

Market Model is a single-index model which posits a linear relationship between the stock return and market portfolio return over an examined time period. Such relationship can be written as:

$$R_{it} = \alpha_i + \beta_i r_{mt} + \varepsilon_{it} \quad (2)$$

$R_{it}$  is the return of stock  $i$  on day  $t$ ,  $R_{mt}$  is the return of the market index on day  $t$ ,  $\alpha_i$  and  $\beta_i$  are the OLS coefficients for the regression from the estimation period, and  $\varepsilon_{it}$  is the error term for stock  $i$  on day  $t$ .  $\beta_i R_{mt}$  is the portion of stock  $i$  return that is due to market-wide movements. The error term  $\varepsilon_{it}$  is part of the return that cannot be explained by market movements and captures the effect of firm-specific information or events.

The employed market model used to generate the expected return  $ER_{it}$  are as shown in equation (3).

$$\overline{ER}_{it} = R_{it} - \overline{\alpha}_i - \overline{\beta}_i [R_{mt}] \quad (3)$$

Where,

$\overline{ER}_{it}$  : Expected returns of  $i^{\text{th}}$  stock at period  $t$   
 $\overline{\alpha}_i, \overline{\beta}_i$  : Parameters of regressions intercept and slope  
 $R_{mt}$  : Market returns of  $i^{\text{th}}$  stock at period  $t$

### III. Aggregation of abnormal returns or benchmark-adjusted returns

The abnormal return observations must be aggregated to a portfolio in order to draw overall inferences for the event of interest. By taking an equal-weighted portfolio, the aggregation is through time and across securities. First, individual securities' abnormal returns can be aggregated across securities, as follows:

$$\overline{AR}_t = \frac{1}{N} (\sum_{i=1}^N AR_{it}) \quad (4)$$

, where  $N$  is the number of security events, is the abnormal return for security  $i$  at time  $t$ . This allows the abnormal returns for any event period to be analyzed.

The average abnormal returns are then aggregated over the event window. The aggregation is along two dimensions, across securities and through time.

$$\overline{CAR}_t(T_1, T_2) = \sum_{t=T_1}^{T_2} \overline{AR}_{it} \quad (5)$$

$\overline{CAR}_t(T_1, T_2)$  is the average cumulated abnormal return across the observed event window and security events.

Cumulative abnormal returns are not correlated to either accounting-based measures or managers' subjective assessments. This lack of statistically significant relationships between the performance criteria may provide a plausible basis for explaining some of the contradictory results often reported in the mergers and acquisitions literature (Papadakis and Thanos, 2010).

### **Test of Significance**

The testing procedure used for testing cumulative abnormal returns in the past is itself another area of literature.

Numerous testing procedures have been proposed and tested for its power in explaining the significance of cumulative abnormal returns. The most recent studies by Kolari and Pynnonen (2011) have covered and tested all those major testing procedures.

They have proposed generalized rank test (GRANK) that is used for testing cumulative abnormal returns, as well as single abnormal returns.

Their results show that popular parametric and non-parametric test statistics such as Patell's standardised residual test, Boehmer, Musumeci and Poulsen's standardised cross-sectional test, Corrado's rank test and Corrado-Zivney's sign test tend to under-reject the null hypothesis as the CAR period increases. It is found out that their newly proposed GRANK test avoids such bias.

Furthermore, the test statistic generated from GRANK test are found to be robust even against event imposed volatility and cross-correlation due to event day clustering, which are the past concerns raised that cannot be avoided when employing those popular test statistics.

In conclusion, the proposed GRANK test is able to overcome those major pitfalls of past statistical tests on cumulative abnormal returns. After comparison with past employed test statistics, GRANK test is found to provide more powerful properties than the popular parametric test of Patell and BMP.

Base on these empirical evidence from Kolari and Pynnonen (2011), this paper employ the newly proposed GRANK test in testing the significance of cumulative abnormal returns generated in this studies from the sample acquisition announcements.

The computation of the test statistic using GRANK procedure can be referred in Kolari and Pynnonen (2011) paper.

#### 4. Findings

**Table 1: Descriptive Statistic for Examined Variables**

| Variable                 | N  | Mean    | Median  | SD      | Variance | Skewness | Kurtosis |
|--------------------------|----|---------|---------|---------|----------|----------|----------|
| CARit                    | 46 | 1.7257  | -0.0903 | 11.3434 | 128.6732 | 6.2778   | 61.252   |
| Family shareholdings (%) | 46 | 46.9446 | 46.5950 | 13.7407 | 188.8070 | 0.3002   | 2.5056   |
| Family on board (%)      | 46 | 36.8265 | 33.3333 | 15.6848 | 246.0148 | 0.2703   | 2.3280   |
| Founder Dummy            | 46 | 0.5343  | 1       | 0.4994  | 0.2494   | -0.1377  | 1.0190   |
| Free cash flow           | 46 | 0.0568  | 0.0577  | 0.0558  | 0.0031   | -2.3645  | 27.4047  |
| Board Independent (%)    | 46 | 41.2609 | 37.5    | 10.5076 | 110.4094 | 1.0995   | 3.9592   |
| Board Size               | 46 | 8.1116  | 8       | 2.0151  | 4.0606   | 1.1054   | 4.6847   |
| CEO Duality Dummy        | 46 | 0.5215  | 1       | 0.5001  | 0.2501   | -0.0859  | 1.0074   |
| Blockholder Dummy        | 46 | 0.6202  | 1       | 0.4859  | 0.2361   | -0.4952  | 1.2452   |

|                              |             |         |             |             |        |        |         |         |
|------------------------------|-------------|---------|-------------|-------------|--------|--------|---------|---------|
| Size                         |             | 46<br>6 | 19.784<br>8 | 19.620<br>2 | 1.6818 | 2.8285 | 0.5239  | 3.3074  |
| Leverage                     |             | 46<br>6 | 0.4096      | 0.3981      | 0.1835 | 0.0337 | 0.1792  | 2.6213  |
| Pseudo Q                     |             | 46<br>6 | 1.1031      | 0.9364      | 0.6108 | 0.3731 | 3.9405  | 31.1142 |
| Domestic<br>dummy            | target      | 46<br>6 | 0.7124      | 1           | 0.4531 | 0.2053 | -0.9387 | 1.8812  |
| Private target dummy         |             | 46<br>6 | 0.6352      | 1           | 0.4819 | 0.2322 | -0.5617 | 1.3155  |
| Subsidiary<br>dummy          | target      | 46<br>6 | 0.4013      | 0           | 0.6655 | 0.4429 | 1.3945  | 3.5970  |
| Cash dummy                   |             | 46<br>6 | 0.9227      | 1           | 0.2673 | 0.0714 | -3.1667 | 11.0282 |
| Equity dummy                 |             | 46<br>6 | 0.0258      | 0           | 0.1586 | 0.0251 | 5.9883  | 36.8598 |
| Partial<br>dummy             | acquisition | 46<br>6 | 0.6867      | 1           | 0.4643 | 0.2156 | -0.8050 | 1.6480  |
| Related<br>acquisition dummy | party       | 46<br>6 | 0.7124      | 1           | 0.4531 | 0.2053 | -0.9387 | 1.8812  |

Table 1 reveals that the examined Cumulative abnormal returns, free cash flow, Pseudo-Q ratio and equity dummy variable have high level of kurtosis that is more than 3. Other variables are quite normally distributed.

Cumulative abnormal returns generated from the sample are positive skewed, signifying that the observed 466 cumulative abnormal returns of family bidders during acquisition announcement periods are mostly positive.

Figure 1 shows that when abnormal returns are cumulated over the event window beginning from Day-5, on average, there is a positive upward trend. The positive cumulated returns ceased gradually when reaching Day 2. Again, Day 0 refer to the day of acquisition announcement released to the public via Bursa announcement website.

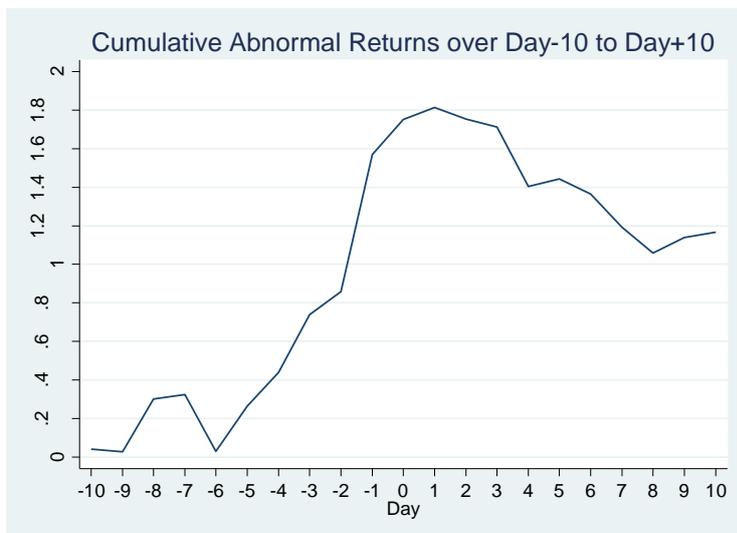


Figure 1 Average Cumulative Abnormal Returns across All Events from Day-10 to Day10

It shows the possibility that the market begins to be aware of family bidders investment decisions 5 days before the formal release of the announcements, on average.

Consistent with the literature, this situation has been referred as stock price run-up of bidding firm prior the M&A announcements. The literature attributes this situation to possible increases of bidding firm's growth opportunities prior M&A announcements (Martin, 1996).

The upward trend of cumulated abnormal returns before the acquisition announcements also signifies possible early information leakage in Malaysia stock market. Earlier literature has also documented such possibility (Schipper and Thompson, 1983).

Table 2 below is presented to examine the significance of stock market reaction by cumulating the average abnormal returns over different days in the event windows.

**Table 2**

**Announcement      Average      Cumulative  
Abnormal Returns (CAR)**

**The sample consists of 466 Malaysia  
corporate acquisitions between 2002 and  
2011 made by Malaysia family controlled**

firms. \*\*, and \*\*\* stand for statistical significance based on generalized rank test at the 5%, 1%, 0.1%, respectively. The market model estimated average CAR are cumulated abnormal returns averaged across all sample announcements. Day 0 refers to the first day of the announcements release to the public.

| Cumulated Days | Average CAR   |         | t <sub>GRANK</sub> |
|----------------|---------------|---------|--------------------|
| Day -10 to +10 | 1.1663        |         | 1.1537             |
| Day -5 to +5   | 1.4141        | *       | 2.1408             |
| Day -5 to +2   | <b>1.7257</b> | **<br>* | <b>3.5452</b>      |
| Day -3 to +3   | 1.2718        | **      | 3.0243             |
| Day -2 to +2   | 1.0154        | **      | 2.8165             |
| Day -1 to +1   | 0.9540        | **      | 3.2604             |
| Day 0 to +1    | 0.2436        | *       | 2.2174             |
| Day 0 to +2    | 0.1854        |         | 1.4387             |
| Day 0 to +5    | -0.1262       |         | -0.3428            |
| Day 0 to +10   | -0.3987       |         | -0.4739            |

Previous literature review on M&A in other countries concluded that bidders on average earn insignificant announcements returns (Campa and Hernando, 2004, Martynova and Renneboog, 2008, Tuch and O'Sullivan, 2007, Alexandridis et al., 2010).

Previous studies for other countries also infer that firms with controlling owners are prompt to use M&A as a tool for minority expropriation, inducing negative stock market reactions (Bae et al., 2002, Holmen and Knopf, 2004, Bigelli and Mengoli, 2004, Buyschaert et al., 2004, Bertrand et al., 2002).

Inconsistent with previous inferences made on other countries stock markets, Table 2 demonstrate that family bidders in Malaysia on average experience significant positive cumulated returns as early as 5 days before the announcement day (Day 0) until 2 days after the announcement day.

The results demonstrate that Malaysia investors actually favour corporate acquisitions attempted by Malaysia family-controlled firms. The average 8-days CAR of 5 days before and 2 days Day 0 for the whole sample acquisitions announcements is 1.73%, significantly different from zero at 1% level (*henceforth referred as CAR(-5,+2) of 1.73% at 1% level*).

CAR(-5,+2) has the highest level of significance at 0.1% level and thus are later used in the multivariate regression analysis to draw empirical inferences on the relationship between family bidder's stock returns with the examined determinants. With the second highest level of significance at 1% level, CAR(-1,+1) is later used in sensitivity analysis for the multivariate regression analysis.

Results reveal that Malaysia family bidders on average do not use corporate acquisitions for private benefits that are detrimental to firms' value. There has been no study yet that examine if Malaysia bidders employ acquisitions as a tool for minority expropriation.

The results are inconsistent with previous findings in other stock markets that acquisitions are used by bidding firms with controlling shareholders as expropriation tool (Bae et al., 2002, Holmen and Knopf, 2004, Bigelli and Mengoli, 2004, Buysschaert et al., 2004, Bertrand et al., 2002).

Other combination of event window days also demonstrate significant positive stock response to family bidders acquisitions announcements with CAR(-1,+1) of 0.745% at 1% level, CAR(-3,+3) of 1.27% at 1% level and CAR(-2,+2) of 1.02% at 1% level.

## **Univariate Analysis**

Table 3

Announcement Average Cumulative Abnormal Returns (CAR) and

Family/ Non-Family CEO

The sample consists of 466 Malaysia corporate acquisitions between 2002 and 2011 made by Malaysia family controlled firms. \*, \*\*, and \*\*\* stand for statistical significance based on generalized rank test at the 5%, 1%, 0.1%, respectively. The CAR(-5,+2) denotes eight-day cumulated abnormal returns averaged across all events measured using market model. *N* and % refers to the number of observed announcements and percentage for each categories, respectively.  $t_{GRANK}$  refers to generalized rank test-statistic for CAR(-5,+2). Founder firm denotes a firm with an individual, who found the company, own a portion of equity in family firm and also hold position(s) on the board. No founder firm includes firm that is either managed or owned by 2<sup>nd</sup> generation or more generation or firm that has no founder.

|   | N   | %   | CAR    |    | $t_{GRANK}$ |
|---|-----|-----|--------|----|-------------|
| <b>Panel A</b>                                  |     |     |        |    |             |
| Founder firm                                    | 249 | 53  | 2.3287 | ** | 3.0202      |
| No founder firm                                 | 217 | 47  | 1.0337 |    | 0.9582      |
| Total   | 466 | 100 |        |    |             |
| <b>Panel B</b>                                  |     |     |        |    |             |
| <b>Founder firm</b>                             |     |     |        |    |             |
| 1 <sup>st</sup> generation                      | 121 | 26  | 2.7986 | ** | 2.6674      |
| 1 <sup>st</sup> with 2 <sup>nd</sup> generation | 128 | 27  | 1.8845 |    | 1.2416      |
| <b>No founder firm</b>                          |     |     |        |    |             |

<sup>39</sup> "No Founder Firm" managed by 1<sup>st</sup> generation refer to the situation when the company do not report the existence of any founder on board but are the first batch of family members that bring the family firm into existence since its establishment. This category also include firms that undergone a change of management when taken over by a different family, the new controlling family is then considered as the 1<sup>st</sup> generation managing the family firm until passing on the controls and ownership to the next successors.

Consistent with previous findings, founder effect is found to be prevalent in inducing good stock performance of family bidders in Malaysia. Family firms with founder(s) on board experience CAR of 2.32% at 1% significant level, on average.

To determine if the good performance is attributable to founder only, Panel B examines CAR of firms managed by different generations, with and without founder on board.

Result reveals that the good performance of family firms can be attributed to founder effect. For family firm that is solely managed by 1<sup>st</sup> generation founder, the stock market performance is significantly positive with CAR of 2.79 at 1% significant level. The 1<sup>st</sup> generation founder in this study comprise of family members who are either spouses or brothers/sisters. It is either one of the family members founded the family firm, or more than one co-founded the family firm together.

When family firms are managed and owned by 2<sup>nd</sup> generation or more, their stock market returns are not significant. This finding is inconsistent with Sraer and Thesmar (2007) findings that founder- and successors-managed-firms still perform significantly well but is consistent with Miller et al. (2007) findings that good family firm performance is due to founder effect.

The finding has implication to family firms where transfer of control and ownership of corporate resources from generation to generation is inevitable for family businesses. The non-significant performance of later-generation-managed firms can be due to the costs of altruism (Chami, 2001). Chami (2001) posits that altruistic parents are willing to sacrifice efficiency of managing corporate resources when passing down the control and ownership of firm resources to later generations, instead of seeking for competent professional outsiders.

We further explore whether the management of the company when shared with professional outsiders would lead to significant good performance, especially for successors-managed family firms. This is examined via the employment of professional CEO or family CEO in the family firms. Results are presented in Table 3 Panel C.

Bennedsen et al. (2007) find family successions have negative impact on firm performance. Results in Panel C disagree with this inference. For family firms that are managed by family CEO perform extremely well with 2.09% of CAR at 0.1% significant level. Family firms managed by professional CEO are negative, albeit insignificant.

To examine further if this is due to founder effect, family firms that are managed by family CEO are further stratified into firms with and without founder on board. Again, the results confirm that the good performance of family bidders is due to founder effect. For firms that

employ family CEO to manage the company, with founder on board, perform extremely well with CAR of 2.6% at 0.1% significant level.

Again, to examine if family firms managed by successors perform well with help from professional CEO, firm with professional CEO are further stratified into firms with and without 1<sup>st</sup> generation on board and/or still owning a portion of shares in family firms. Table 3 Panel C reveal that even with help from professional CEO, successor-managed family firms still perform worst with CAR of -1.07% at 5% significant level. However, caution is needed as the sample size comprise of only 24 observations.

We examine again stock performance of successor-managed family firms that employ family members as CEO, the results reveal that family firms actually perform better with CAR of 2.8%, however at 10% significant level only.

Overall, the evidence in Panel C reveal that family firm perform well if they allow their own family members managed the family firms. This is inconsistent with previous findings that find better performance of family firms when managed by professional outsiders (Cucculelli and Micucci, 2008, Sraer and Thesmar, 2007). The results bring unique implication of Malaysia family firm, unlike those found in other developed countries.

### **Multivariate Analysis**

Again, the result from the base model is presented in Table4 model (1). Result in the base model base on the dummy variable *founder* reveal that the existence of founder on board does not significantly affect family bidder stock returns during the announcement period. This is inconsistent with the preliminary evidence generated in univariate analysis, where founder effect is found to be prevalent inducing significant positive stock returns during announcement period.

This shows that inferences cannot depend solely on univariate analysis due to the limitation of univariate analysis not controlling the effect of other possible determinants. The significant positive CAR found for the examined event firms with founder on board can be due to other uncontrolled factors inducing positive significant CAR.

The *founder* dummy variable in this study equals to one when founder is present on the board of the family bidder firm. This include the case that even with the presence of founder on board, the position of CEO can be held by either a family member or an employed non-family professional. This may be the reason why the *founder* dummy do not exhibit significant effect on family bidder returns base on the result generated in the base model.

Anderson and Reeb (2003) paper examine the effect of active family involvement in the management of family firm on firm performance. They find that the effect of family members serve as CEO induce significant positive firm performance, whereas hired non-family related CEO do not exhibit any significant effect on firm performance.

Thus, we further explore if the active involvement of founder together with later generations in the management of family business is able to induce significant effect on family bidder returns during the announcement period.

At the initial stage, we first examine if such notion is applicable to Malaysia family bidders, via the generation of a dummy variable in model (2) that equals to one if a family member is the CEO of the family firm, represented by the variable *Family CEO*. This includes either the founder or descendent holding the position of CEO.

Result in Table 4 model (2) reveals significant positive effect of *Family CEO*, implying that when family firm is managed by family member, the family bidder returns would perform positively, consistent with Anderson and Reeb (2003) finding.

Not showing in the table, a dummy variable is generated that equals to one when family firm is managed by externally employed professional CEOs. It exhibit significant negative effect on family bidder stock returns. This implies that the employment of a non-family related CEO in family firms is actually detrimental to the stock returns during announcement period. This also gives sign that even when employing professional CEO to assist the management of family businesses, there is still a possibility that the professional CEO would not opt for value-enhancing acquisitions.

Further examinations are performed in detail to observe first-generation- and later-generation-managed family firms effect on family bidder returns via model (3) in Table 4. Three dummy variables are generated. *1st gen only\*Founder* is a dummy variable that equals to one when the position of CEO is held by 1<sup>st</sup> generation founder(s), 0 otherwise. *1st & 2nd gen\* Founder* dummy is generated that equals to one when family firm is managed by both founder and later generation together, where family member is also the CEO, 0 otherwise. *Descendent only* dummy is generated that equals to one when family firm is solely managed by descendents, where the position of CEO is held by the descendent, 0 otherwise.

Result in Table 4 model (3) reveals a positive effect at 10% significant level of *1<sup>st</sup> gen only\*Founder* on Malaysia family bidders' stock returns. This explains that the positive founder effect is only observable when founders are actively involved in the management of family firms via the holding of the CEO positions and at the same time not managing the family businesses with descendents. The results reveal that founder effect is sensitive to the

criteria employed in measuring founder effect. When the criteria are made stringent with founder holding CEO position, the founder effect is observable, implying the necessity of founder active role in managing the family businesses.

When family firm is managed by founder and later generations together, represented by the variable  $1^{st} \& 2^{nd} \text{ gen} * \text{Founder}$ , the active involvement of family in management does not significantly contribute to family bidder returns.

The findings have implication to founders of family businesses. There may be unconsidered reasons of the insignificant performance when family firms are managed together by founder and later generations.

One of the reasons can be found via suggestion mentioned by Lee and Li (2009) of possible internal conflicts that may be present among first and later generation and are thus detrimental to family businesses.

Lee and Li (2009) mentioned that with the number of family member increasing, the relationships among family members of same generation with later generation become complicated. Consensus on management and strategic direction of family firms may become difficult to reconcile among family members.

Thus, some family firms may be able to overcome such internal issues, some fail to do so. Thus, even with active involvement by family members in the management of family businesses, it does not necessarily induce significant effect on family bidder returns.

Remarkably, the significant positive effects of descendents on Malaysia family bidders' stock returns are observable at 1% significant level in model (3). For family firms managed solely by descendents, it actually induces positive effect on family bidder's stock returns during the announcement period. This implies that descendents are actually capable of making good investment decisions that bring positive effect to stock reactions than their formal predecessors.

Such discovery is consistent with previous findings that descendents managed family firms also induce positive effect on family firm performance (Anderson and Reeb, 2003, Sraer and Thesmar, 2007). However, it is inconsistent with Miller et al. (2007) inferences that the good performances of family firms are solely due to founder effect.

To further investigate if the presence of founder would mitigate this problem, an interactive term is examined in model (4) Table 4 represented by *Family OWN\*Founder*, where family shareholdings are multiply by founder dummy to examine this interactive effect.

There are numerous studies in the past literature examine founder effect on firm performance. However, within knowledge there has been lack of focus and evidence of the founder effect on agency problem of a firm.

The positive effect of founder on firm performance documented in the literature leads to the motivation for further research on the significance of agency problem in the family firm when founder is still active with the management of family businesses.

Past findings do not specifically examine such effect when examining agency problem in a family firm (Morck and Yeung, 2003, Schulze et al., 2001).

Base on the results presented in model (4), no significant agency problem can be detected with the presence of founder.

When we apply piecewise least square to organize the ownership-performance relationship into three breakpoints, no sign of agency problem can be detected, when founder is presence on the board.

This result reveals that agency problem is not prevalent when founder is presence on the board. This result has implication that founder actually has mitigation effect on agency problem, however, not so significantly to the extent of inducing significant positive effect.

We further investigate the interactive effect of founder on agency problem via free cash flow using the interactive variable *FCF \* Founder* that denotes free cash flow multiplied by the *founder* dummy. Results are presented in Table 4 model (6) that exhibit negative relation of *FCF\*Founder* with family bidder returns. This reveals that agency problem is still present even when founder is on board, when measured by free cash flow.

It shows that when founder is on board, with abundance free cash flow are prompt to invest the free cash flow in value-destroying acquisitions, instead of distributing them back to the shareholders.

Another interactive term is generated in model (7) to examine if free cash flow hypothesis is supported when considering the interactive effect of founder on low-q family firms with free cash flow. Again, the result is consistent with previous literature findings that supports free cash flow hypothesis. Even if founder is on board, the presence of agency problem can still be detected in low Q firm. The higher level of free cash flow in low Q family bidder would induce further negative reaction from Malaysia family firm investors.

In model (8), the interactive effect of founder on related party acquisitions are examined via the interactive dummy  $RPT * Founder$  that equals to one when the transaction is a related party acquisitions attempted by family bidders that have founders on the board. In this case, no significant effect of founder can be found in affecting bidder returns.

This implies that when founder is present on board, no agency problem can be detected via related party acquisitions. With the presence of founder on board, the family firms are not prompt in making value-decreasing acquisitions investment decision via related-party acquisitions.

The result exhibited that via the interactive effect of founder on family shareholdings and related-party acquisitions, founder effect somehow is still able to mitigate agency problem.

However, the findings overall reveal that agency problem exists in founder firms when the opportunity exist, not via related-party acquisitions, but through free cash flow to invest in value-decreasing acquisition investments. The agency problem is prevalent for founder firms with low-Q ratio and high level of free cash flow.

Thus, founder firm are prompt to exhibit agency problem when they have high level of free cash flow available for investment, but are poor with investment opportunities. This has implication to family firms that investors are aware when the family management is entrenched and thus do not prefer investments by such family firms.

**Table 4: Regression Analysis for Family Bidder Returns and Founder Effect**

The sample consists of 466 Malaysia corporate acquisitions between 2002 and 2011 attempted by Malaysia family controlled firms. The dependent variable CARiT denotes CAR(-5,+2) of eight-day cumulated abnormal returns averaged across all events measured using market model.

|                            | (1)      | (2)       | (3)      | (4)      | (5)      |
|----------------------------|----------|-----------|----------|----------|----------|
| Family shareholdings       | -0.0792* | -0.0739*  | -0.0723* |          |          |
|                            | (-1.892) | (-1.770)  | (-1.736) |          |          |
| Founder                    | 0.356    | -0.0164   |          |          |          |
|                            | (0.320)  | (-0.0146) |          |          |          |
| Family OWN * Founder       |          |           |          | -0.0254  |          |
|                            |          |           |          | (-1.185) |          |
| <40% family ownership*F    |          |           |          |          | 0.0427   |
|                            |          |           |          |          | (1.085)  |
| 40%-69% family ownership*F |          |           |          |          | -0.155   |
|                            |          |           |          |          | (-1.387) |
| = > 70% family ownership*F |          |           |          |          | -0.266   |
|                            |          |           |          |          | (-1.281) |
| Family CEO                 |          | 3.548**   |          |          |          |
|                            |          | (2.161)   |          |          |          |
| 1st gen only * Founder     |          |           | 2.641*   |          |          |
|                            |          |           | (1.834)  |          |          |
| 1st & 2nd gen * Founder    |          |           | 2.109    |          |          |
|                            |          |           | (1.453)  |          |          |

|                         |          |          |          |          |          |
|-------------------------|----------|----------|----------|----------|----------|
| Descendent only         |          |          | 4.676*** |          |          |
|                         |          |          | (2.893)  |          |          |
|                         |          |          | -        |          |          |
| Free cash flow          | -19.64** | -21.63** | 25.57*** | -17.54*  | -19.86** |
|                         | (-2.011) | (-2.213) | (-2.607) | (-1.793) | (-2.008) |
| Independent director %  | -0.0344  | -0.0186  | -0.00571 | -0.0339  | -0.0174  |
|                         | (-0.644) | (-0.346) | (-0.106) | (-0.637) | (-0.323) |
| Board Size              | -0.185   | -0.173   | -0.0695  | -0.198   | -0.223   |
|                         | (-0.657) | (-0.617) | (-0.245) | (-0.700) | (-0.787) |
| CEO Duality dummy       | -0.771   | -1.973*  | -1.026   | -0.700   | -0.878   |
|                         | (-0.726) | (-1.652) | (-0.917) | (-0.659) | (-0.827) |
| Blockholder dummy       | 0.188    | 0.159    | 0.151    | 1.029    | 0.0852   |
|                         | (0.157)  | (0.133)  | (0.127)  | (0.954)  | (0.0738) |
| Firm Size               | -0.817** | -0.774** | -0.931** | -0.987** | -0.854** |
|                         | (-2.089) | (-1.986) | (-2.339) | (-2.556) | (-2.193) |
| Leverage                | 1.933    | 2.044    | 2.325    | 3.167    | 1.870    |
|                         | (0.663)  | (0.704)  | (0.804)  | (1.107)  | (0.640)  |
| Pseudo-q                | 1.164    | 0.885    | 1.335    | 1.600    | 1.124    |
|                         | (1.114)  | (0.845)  | (1.253)  | (1.560)  | (1.076)  |
| Domestic target dummy   | -0.250   | -0.141   | -0.217   | -0.166   | -0.191   |
|                         | (-0.213) | (-0.121) | (-0.186) | (-0.141) | (-0.163) |
| Private target dummy    | 2.453    | 2.123    | 2.201    | 2.466    | 2.583    |
|                         | (1.336)  | (1.157)  | (1.204)  | (1.342)  | (1.410)  |
| Subsidiary target dummy | 1.263    | 1.144    | 1.015    | 1.119    | 1.086    |
|                         | (1.007)  | (0.916)  | (0.815)  | (0.894)  | (0.870)  |
| Cash dummy              | 1.097    | 1.047    | 1.383    | 1.353    | 0.747    |
|                         | (0.479)  | (0.459)  | (0.606)  | (0.591)  | (0.325)  |

|                           |          |          |          |          |          |
|---------------------------|----------|----------|----------|----------|----------|
| Equity dummy              | 20.99*** | 20.74*** | 21.48*** | 21.55*** | 21.47*** |
|                           | (5.505)  | (5.459)  | (5.656)  | (5.650)  | (5.650)  |
| Partial acquisition dummy | 1.526    | 1.333    | 1.464    | 1.608    | 1.592    |
|                           | (1.224)  | (1.071)  | (1.182)  | (1.286)  | (1.277)  |
| Non-related party dummy   | 2.389**  | 2.407**  | 2.519**  | 2.609**  | 2.429**  |
|                           | (2.096)  | (2.121)  | (2.216)  | (2.293)  | (2.138)  |
| Constant                  | 17.46**  | 14.20*   | 15.66*   | 15.88**  | 14.70*   |
|                           | (2.161)  | (1.735)  | (1.935)  | (2.018)  | (1.868)  |
| Observations              | 466      | 466      | 466      | 466      | 466      |
| R-squared                 | 0.141    | 0.149    | 0.158    | 0.136    | 0.146    |
| Adjusted R-squared        | 0.108    | 0.115    | 0.122    | 0.105    | 0.112    |
| F-test                    | 4.309    | 4.363    | 4.407    | 4.426    | 4.252    |
| Probability>F             |          |          |          |          |          |

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t-statistics in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 4: Regression Analysis for Family Bidder Returns and Founder Effect**

**The sample consists of 466 Malaysia corporate acquisitions between 2002 and 2011 attempted by Malaysia family controlled firms. The dependent variable CARiT denotes CAR(-5,+2) of eight-day cumulated abnormal returns averaged across all events measured using market model.**

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|                      | (6)      | (7)      | (8)      |
|----------------------|----------|----------|----------|
| Family shareholdings | -0.0750* | -0.0810* | -0.0820* |

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|                         |           |           |          |
|-------------------------|-----------|-----------|----------|
|                         | (-1.791)  | (-1.957)  | (-1.960) |
| Free cash flow          |           |           | -17.71*  |
|                         |           |           | (-1.850) |
| FCF * Founder           | -25.34**  |           |          |
|                         | (-2.160)  |           |          |
| FCF * LowQ & Founder    |           | -44.33**  |          |
|                         |           | (-2.540)  |          |
| Independent director %  | -0.0440   | -0.0311   | -0.0339  |
|                         | (-0.827)  | (-0.598)  | (-0.638) |
| Board Size              | -0.146    | -0.193    | -0.171   |
|                         | (-0.520)  | (-0.695)  | (-0.607) |
| CEO Duality dummy       | -0.576    | -0.662    | -0.623   |
|                         | (-0.547)  | (-0.635)  | (-0.592) |
| Blockholder dummy       | 0.262     | 0.173     | 0.174    |
|                         | (0.219)   | (0.145)   | (0.145)  |
| Firm Size               | -0.993**  | -         | 0.900*** |
|                         | (-2.542)  |           | (-2.259) |
| Leverage                | 3.117     | 3.366     | 2.395    |
|                         | (1.091)   | (1.192)   | (0.835)  |
| Pseudo-q                | 1.489     |           | 1.358    |
|                         | (1.407)   |           | (1.323)  |
| Domestic target dummy   | -0.0689   | -0.0993   | -0.343   |
|                         | (-0.0586) | (-0.0848) | (-0.292) |
| Private target dummy    | 2.415     | 2.366     | 2.591    |
|                         | (1.322)   | (1.300)   | (1.413)  |
| Subsidiary target dummy | 1.123     | 1.139     | 1.218    |

|                           |          |          |          |
|---------------------------|----------|----------|----------|
|                           | (0.898)  | (0.914)  | (0.971)  |
| Cash dummy                | 1.261    | 1.137    | 1.610    |
|                           | (0.553)  | (0.500)  | (0.707)  |
| Equity dummy              | 20.89*** | 20.64*** | 21.29*** |
|                           | (5.502)  | (5.447)  | (5.579)  |
| Partial acquisition dummy | 1.684    | 1.587    | 1.685    |
|                           | (1.353)  | (1.281)  | (1.355)  |
| Non-related party dummy   | 2.583**  | 2.600**  |          |
|                           | (2.266)  | (2.296)  |          |
| RPT * Founder             |          |          | -2.384   |
|                           |          |          | (-1.586) |
| Constant                  | 19.42**  | 19.19**  | 19.48**  |
|                           | (2.420)  | (2.469)  | (2.440)  |
| Observations              | 466      | 466      | 466      |
| R-squared                 | 0.142    | 0.144    | 0.137    |
| Adjusted R-squared        | 0.111    | 0.116    | 0.106    |
| F-test                    | 4.632    | 5.059    | 4.437    |
| Probability>F             | 0.000    | 0.000    | 0.000    |

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t-statistics in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

We further consider the interactive effect of active managerial role by family members in family businesses, as proxy by the holding of CEO position in family firms, to investigate if agency problem is prevalent in such family firms. Two aspects are considered in this study – the interactive effect of founder-CEO managed firms and the interactive effect of descendent only managed firms.

When considering the effect of founder who is also active in the management of family firm via the holding of CEO position, no significant agency problem can be detected. The interactive term in Table 5 model (2) *Family shareholdings\*C* examine the interactive effect of *Ist gen*

only\**Founder* and family shareholdings. Model (3) examines possible non-linear relationship of family shareholdings by including the interactive effect of founder CEO as represented by the variable *C*. Both models do not reveal any significant effect of the shareholdings on bidder returns when founder-CEO is present on board.

Again, Table 5 examines the interactive effect of founder-CEO with free cash flow on bidder returns, instead of sole founder effect, via model (4) and (5). Results indicate that with the presence of founder-CEO, no agency problem can be detected via free cash flow. However, agency problem still exist when family firm managed by founder-CEO is faced with low investment opportunities, as represented by the significant negative sign by the interactive term *FCF\*LowQ & CEO Founder*. This again is in support of free cash flow hypothesis.

When looking at the interactive term *RPT \* CEO Founder* in model (5) to examine if founder-CEO is prompt in making value-destroying acquisition investment decisions, such notion is found to be not significant base on the result. This implies that unlike those found in the literature that firms with controlling shareholders are prompt in making value-destroying acquisitions, Malaysia family bidders managed by CEO-founder are on average do not involve in such investment decisions.

**Table 5: Regression Analysis for Family Bidder Returns and CEO Founder Effect**

The sample consists of 466 Malaysia corporate acquisitions between 2002 and 2011 attempted by Malaysia family controlled firms. The dependent variable CARiT denotes CAR(-5,+2) of eight-day cumulated abnormal returns averaged across all events measured using market model.

|                         | (1)      | (2)     | (3)    | (4)      | (5)      | (6)      |
|-------------------------|----------|---------|--------|----------|----------|----------|
|                         |          |         |        |          | -        | -        |
| Family shareholdings    | -0.0792* |         |        | -0.0802* | 0.0889*  | 0.0846*  |
|                         | (-1.892) |         |        | (-1.916) | (-2.148) | (-2.018) |
| Family shareholdings*C  |          | 0.00342 |        |          |          |          |
|                         |          | (0.128) |        |          |          |          |
| <40% family ownership*C |          |         | 0.0570 |          |          |          |

|                           |        |          |          |          |          |          |
|---------------------------|--------|----------|----------|----------|----------|----------|
|                           |        |          |          |          |          | (1.159)  |
| 40%-69%<br>ownership*C    | family |          |          |          |          | -0.244   |
|                           |        |          |          |          |          | (-1.435) |
| > 70%<br>ownership*C      | family |          |          |          |          | 0.491    |
|                           |        |          |          |          |          | (0.816)  |
| Founder                   |        | 0.356    |          |          |          |          |
|                           |        | (0.320)  |          |          |          |          |
| Free cash flow            |        | -19.64** | -20.24** | -19.61** |          | -18.06*  |
|                           |        | (-2.011) | (-2.085) | (-2.018) |          | (-1.882) |
| FCF*CEO Founder           |        |          |          |          |          | -24.16   |
|                           |        |          |          |          |          | (-1.636) |
| FCF*LowQ & CEO<br>Founder |        |          |          |          |          | -61.99** |
|                           |        |          |          |          |          | (-2.374) |
| Independent director %    |        | -0.0344  | -0.0284  | -0.0318  | -0.0347  | -0.0344  |
|                           |        | (-0.644) | (-0.535) | (-0.597) | (-0.654) | (-0.662) |
|                           |        |          |          |          |          | (-0.576) |
| Board Size                |        | -0.185   | -0.206   | -0.206   | -0.138   | -0.213   |
|                           |        | (-0.657) | (-0.728) | (-0.727) | (-0.490) | (-0.765) |
|                           |        |          |          |          |          | (-0.570) |
| CEO Duality dummy         |        | -0.771   | -0.897   | -0.931   | -0.991   | -0.907   |
|                           |        | (-0.726) | (-0.852) | (-0.878) | (-0.941) | (-0.874) |
|                           |        |          |          |          |          | (-0.655) |
| Blockholder dummy         |        | 0.188    | 1.254    | 1.006    | 0.114    | 0.0770   |
|                           |        | (0.157)  | (1.170)  | (0.906)  | (0.0955) | (0.0645) |
|                           |        |          |          |          |          | (0.196)  |
| Firm Size                 |        | -0.817** | -0.907** | -0.851** | -0.960** | -0.788** |
|                           |        | (-2.089) | (-2.336) | (-2.162) | (-2.444) | (-2.404) |
|                           |        |          |          |          |          | (-2.227) |
| Leverage                  |        | 1.933    | 2.760    | 2.550    | 2.748    | 3.389    |
|                           |        | (0.663)  | (0.967)  | (0.892)  | (0.963)  | (1.198)  |
|                           |        |          |          |          |          | (0.777)  |

|                           |              |              |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Pseudo-q                  | 1.164        | 1.438        | 1.219        | 1.335        |              | 1.339        |
|                           | (1.114)      | (1.376)      | (1.149)      | (1.242)      |              | (1.301)      |
| Domestic target dummy     | -0.250       | -0.186       | -0.183       | -0.207       | -0.292       | -0.520       |
|                           | (-0.213)     | (-0.158)     | (-0.156)     | (-0.176)     | (-0.250)     | (-0.443)     |
| Private target dummy      | 2.453        | 2.271        | 2.273        | 2.221        | 2.163        | 2.624        |
|                           | (1.336)      | (1.239)      | (1.234)      | (1.214)      | (1.186)      | (1.426)      |
| Subsidiary target dummy   | 1.263        | 1.095        | 0.953        | 1.160        | 1.167        | 1.226        |
|                           | (1.007)      | (0.874)      | (0.758)      | (0.926)      | (0.936)      | (0.972)      |
| Cash dummy                | 1.097        | 1.249        | 1.433        | 1.112        | 0.748        | 1.600        |
|                           | (0.479)      | (0.545)      | (0.622)      | (0.486)      | (0.327)      | (0.701)      |
| Equity dummy              | 20.99**<br>* | 21.27**<br>* | 21.63**<br>* | 20.73**<br>* | 20.11**<br>* | 20.82**<br>* |
|                           | (5.505)      | (5.577)      | (5.652)      | (5.442)      | (5.276)      | (5.459)      |
| Partial acquisition dummy | 1.526        | 1.488        | 1.413        | 1.614        | 1.571        | 1.749        |
|                           | (1.224)      | (1.192)      | (1.130)      | (1.296)      | (1.267)      | (1.403)      |
| Non-related party dummy   | 2.389**      | 2.529**      | 2.512**      | 2.519**      | 2.441**      |              |
|                           | (2.096)      | (2.216)      | (2.201)      | (2.205)      | (2.160)      |              |
| RPT * CEO Founder         |              |              |              |              |              | -1.002       |
|                           |              |              |              |              |              | (-0.437)     |
| Constant                  | 17.46**      | 14.32*       | 13.64*       | 19.14**      | 18.36**      | 19.14**      |
|                           | (2.161)      | (1.811)      | (1.716)      | (2.371)      | (2.372)      | (2.387)      |
| Observations              | 466          | 466          | 466          | 466          | 466          | 466          |
| R-squared                 | 0.141        | 0.134        | 0.138        | 0.138        | 0.143        | 0.132        |
| Adjusted R-squared        | 0.108        | 0.103        | 0.103        | 0.107        | 0.114        | 0.101        |
| F-test                    | 4.309        | 4.326        | 3.967        | 4.489        | 4.996        | 4.269        |

|               |       |       |       |       |       |       |
|---------------|-------|-------|-------|-------|-------|-------|
| Probability>F | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
|---------------|-------|-------|-------|-------|-------|-------|

t-statistics in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 6 below consider the interactive effect of descendent-CEO on family bidder returns. We regenerate similar variables of concern as those examine in table above to observe if descendent CEO exhibit different relation with family bidder returns.

In contrast to those found before, model (2) reveals that there is significant positive effect of descendent CEO on family bidder returns. The variable of concern *Family shareholdings\*D* denotes interactive term of family shareholding with dummy variable that equal one when the descendent hold CEO position in family firm. The significant relation implies that not only agency problem is mitigated; the interest of manager-owner is effectively aligned when family business is managed by descendent. There may be some unobservable traits from descendent resulting in agency problem mitigation.

Model (3) shows that there is no significant non-linear relationship found between descendent ownership and family bidder returns.

Again, for descendent-CEO managed family firm, agency problem cannot be detected. Model (4) and (5) consider the interactive effect of descendent-CEO on free cash flow, as represented by the variable *FCF\*Descendent CEO* and *FCF\*LowQ & Descendent CEO*. These are the similar variables examined in the tables before for founder and CEO-founder interactive effect and in this case only descendent-CEO effect is considered in Table 6 model (4) and (5). Unlike the significant negative relationship found for founder and CEO-founder in previous tables, descendent-CEO managed family firm do not exhibit any significant agency problem, for there not significant negative relation found between free cash flow and bidder return.

Similar inferences can be made when considering the interactive effect of descendent-CEO on related party acquisitions, as represented by the variable *RPT\*Descendent CEO*. Descendent-CEO managed firms do not involve in value-decreasing acquisition investment decisions.

### **Table 6: Regression Analysis for Family Bidder Returns and Descendent CEO Effect**

**The sample consists of 466 Malaysia corporate acquisitions between 2002 and 2011 attempted by Malaysia family controlled firms. The dependent variable CARiT denotes CAR(-5,+2) of eight-day cumulated abnormal returns averaged across all events measured**

using market model.

|                               | (1)      | (2)      | (3)      | (4)      | (5)      | (6)      |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| Family shareholdings          | -0.0792* |          |          | -0.0792* | -        | -        |
|                               | (-1.892) |          |          | (-1.886) | (-2.205) | (-2.016) |
| <b>Family shareholdings*D</b> |          | 0.114*** |          |          |          |          |
|                               |          | (3.398)  |          |          |          |          |
| <40% ownership*D              |          |          | 0.0561   |          |          |          |
|                               |          |          | (0.927)  |          |          |          |
| 40%-69% ownership*D           |          |          | 0.207    |          |          |          |
|                               |          |          | (0.920)  |          |          |          |
| > 70% ownership*D             |          |          | 1.036    |          |          |          |
|                               |          |          | (1.426)  |          |          |          |
| Founder                       | 0.356    | 2.012*   | 1.820    | 0.420    | 0.558    | 0.597    |
|                               | (0.320)  | (1.659)  | (1.497)  | (0.364)  | (0.506)  | (0.516)  |
| Free cash flow                | -19.64** | -        | -        |          |          | -19.38*  |
|                               | (-2.011) | (-2.691) | (-2.601) |          |          | (-1.965) |
| FCF*Descendent CEO            |          |          |          | 29.75    |          |          |
|                               |          |          |          | (1.430)  |          |          |
| FCF*LowQ & Descendent CEO     |          |          |          |          | 41.75    |          |
|                               |          |          |          |          | (1.557)  |          |
| Independent director %        | -0.0344  | 0.00422  | 0.00192  | -0.0265  | -0.0324  | -0.0272  |

|                           |          |           |           |          |          |          |
|---------------------------|----------|-----------|-----------|----------|----------|----------|
|                           | (-0.644) | (0.0787)  | (0.0358)  | (-0.492) | (-0.610) | (-0.505) |
| Board Size                | -0.185   | -0.0713   | -0.125    | -0.113   | -0.146   | -0.161   |
|                           | (-0.657) | (-0.253)  | (-0.443)  | (-0.399) | (-0.519) | (-0.569) |
| CEO Duality dummy         | -0.771   | -1.125    | -1.168    | -0.912   | -0.954   | -0.727   |
|                           | (-0.726) | (-1.072)  | (-1.112)  | (-0.856) | (-0.909) | (-0.681) |
| Blockholder dummy         | 0.188    | 1.178     | 1.414     | 0.240    | -0.135   | 0.252    |
|                           | (0.157)  | (1.119)   | (1.336)   | (0.200)  | (-0.112) | (0.209)  |
|                           |          | -         |           |          |          |          |
| Firm Size                 | -0.817** | 1.082***  | -0.995**  | -0.939** | -0.667** | -0.813** |
|                           | (-2.089) | (-2.779)  | (-2.524)  | (-2.348) | (-2.032) | (-2.068) |
| Leverage                  | 1.933    | 3.481     | 3.449     | 3.107    | 3.129    | 1.915    |
|                           | (0.663)  | (1.211)   | (1.193)   | (1.065)  | (1.081)  | (0.654)  |
| Pseudo-q                  | 1.164    | 1.837*    | 1.701     | 0.725    |          | 1.246    |
|                           | (1.114)  | (1.775)   | (1.643)   | (0.714)  |          | (1.186)  |
| Domestic target dummy     | -0.250   | -0.0548   | -0.0729   | -0.226   | -0.274   | -0.506   |
|                           | (-0.213) | (-0.0471) | (-0.0623) | (-0.192) | (-0.233) | (-0.430) |
| Private target dummy      | 2.453    | 1.995     | 1.974     | 2.278    | 2.296    | 2.539    |
|                           | (1.336)  | (1.098)   | (1.087)   | (1.239)  | (1.250)  | (1.377)  |
| Subsidiary target dummy   | 1.263    | 0.773     | 0.727     | 1.159    | 1.050    | 1.172    |
|                           | (1.007)  | (0.622)   | (0.582)   | (0.923)  | (0.837)  | (0.931)  |
| Cash dummy                | 1.097    | 1.555     | 1.734     | 1.312    | 1.395    | 1.567    |
|                           | (0.479)  | (0.684)   | (0.763)   | (0.571)  | (0.607)  | (0.683)  |
| Equity dummy              | 20.99*** | 21.71***  | 22.00***  | 21.18*** | 21.49*** | 20.68*** |
|                           | (5.505)  | (5.739)   | (5.820)   | (5.543)  | (5.618)  | (5.401)  |
| Partial acquisition dummy | 1.526    | 1.394     | 1.310     | 1.570    | 1.462    | 1.729    |
|                           | (1.224)  | (1.128)   | (1.059)   | (1.256)  | (1.170)  | (1.379)  |

|                         |         |         |         |         |         |         |
|-------------------------|---------|---------|---------|---------|---------|---------|
| Non-related party dummy | 2.389** | 2.799** | 2.734** | 2.423** | 2.374** |         |
|                         | (2.096) | (2.476) | (2.421) | (2.118) | (2.083) |         |
| RPT*Descendent CEO      |         |         |         |         |         | 0.503   |
|                         |         |         |         |         |         | (0.227) |
| Constant                | 17.46** | 13.09*  | 12.07   | 17.47** | 14.31*  | 18.14** |
|                         | (2.161) | (1.673) | (1.534) | (2.156) | (1.837) | (2.233) |
| Observations            | 466     | 466     | 466     | 466     | 466     | 466     |
| R-squared               | 0.141   | 0.155   | 0.162   | 0.137   | 0.137   | 0.132   |
| Adjusted R-squared      | 0.108   | 0.123   | 0.127   | 0.104   | 0.106   | 0.0993  |
| F-test                  | 4.309   | 4.850   | 4.549   | 4.174   | 4.444   | 4.015   |
| Probability>F           | 0.000   | 0.000   | 0.000   | 0.000   | 0.000   | 0.000   |

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t-statistics in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## 5. Discussion

The result overall reveal that descendent-managed family firms are quite effective in mitigating agency problem. They exhibit positive significant effect on family bidder returns during the announcement period.

The significant positive effect of descendent managerial role on family firms are further revealed when the previously observed significant negative relation between free cash flow and stock returns are not observable. There is a weak positive relationship exhibited between free cash flow and bidding firm returns when considering the interactive effect of descendent CEO.

This further shows that when examining the performance of family firms, the consideration on the managerial role of family members are essential and specifically, management by 1<sup>st</sup> or later generations.

The results also exhibit that founder are not prevalent in mitigating agency problem in family firms, whether the founder is active in managing the family business or not.

Agency problem is prevalent and observable when the founder firms have abundance free cash flow. Agency problem also exist in founder firms with low-q ratio and high level of free cash flow.

The findings overall reveal that the existence of agency problem in family firms is sensitive to the person who manage the family businesses, the founder or the descendant.

The examination of family effect on M&A bidder returns and agency problem have not yet been examined.

The detailed finding of mitigation effect of descendent managed family firms on agency problem have not yet been documented in the literature, when observed via such family firms' investment decisions in M&A.

The findings have somehow supported past literature on the positive descendent effect on family firm performance (Anderson and Reeb, 2003, Sraer and Thesmar, 2007) but is inconsistent with Miller et al. (2007) inferences that the good performances of family firms are solely due to founder effect.

## **6. Implications**

The findings have implication to the sustainability of family businesses where transfer of control and ownership of corporate resources from generation to generation is inevitable for family businesses. The inabilities of later generations to manage family firms not only pose threats to family businesses, but also indirectly affect society economies.

However, the findings in this paper reveal that sole-descendent managed firms induce significant positive effect on family firm stock returns during announcement period. Descendent managed firms made better investment decision than their predecessors.

The findings also contribute to the literature whether agency problem is prevalent in Malaysia family firms. As agency problem induce worse firm performance, this help policy maker to

decide if stronger corporate governance measures are required for Malaysia family firms. In this case, attention is needed when mandating the application of corporate governance for family firms managed by 1<sup>st</sup> generation, especially for family firms with abundance level of free cash flow with low investment opportunities.

## **7. Concluding Observations**

The results overall find that on average, family firms in Malaysia experience significant and positive stock returns during announcement period.

Furthermore, results exhibit that descendent-managed family firms are quite effective in mitigating agency problem. They exhibit positive significant effect on family bidder returns during the announcement period. Even when given the opportunities with abundance level of free cash flow or available related-party acquisitions, descendent-managed family firms would not opt for value-decreasing M&A investments. The market value their investment decisions by reacting positively and significantly.

However, agency problem is found to exist for 1<sup>st</sup> generation-managed family firms, whether alone or with later generations. The case is especially observable when 1<sup>st</sup> generation managed firms are faced with low investment opportunities with abundance level of free cash flow. They would prefer to investment the excess cash into value-decreasing investments instead of distributing them back to the shareholders.

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# **FACTORS INHIBITING ENTREPRENEURS AND NEW VENTURE FORMATION IN LATVIA: TALENT, OPPORTUNITY RECOGNITION AND ECONOMIC SUSTAINABILITY IN THE CREATIVE INDUSTRIES**

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## **Abstract**

The formation of new entrepreneurial ventures in “creative industries” is particularly important to small economies such as Latvia, where micro and, small- and medium sized enterprises (SMEs) are dominant. Unfortunately, there is little agreement on the key factors that encourage or inhibit individuals from becoming entrepreneurs and starting new ventures with high growth potential. This is especially the case with artists and other creative talents (“artists”) who are the principal agents of the “creative industries”. Based on extensive desk research, the author investigates the primary barriers inhibiting entrepreneurs and new venture formation in Latvia to help develop a framework for analysis of issues affecting entrepreneurs in Latvia. This is followed by field research which used two instruments: two Domain-Specific Risk-Taking (DOSPRT) instruments with additional questions concerning entrepreneurial attitude and a project-specific survey (designed and developed by the author) to examine why artists rarely progress beyond self-employment to forming ventures with high growth potential.

## **Introduction**

### Entrepreneurship

Entrepreneurship at a time of global economic crisis is perhaps more important than ever (Gries and Naude, 2010), because it is one of the ways in which a country can attempt to solve a range of economic and social challenges. Entrepreneurship helps to build human welfare, create jobs, encourage economic growth and build sustainable economic development (Wolkmann et al., 2009). According to the Klapper and Love (2010) entrepreneurship during the crisis from year 2007 till 2009 sharply decreased in most developing countries rather than middle and low developing countries. Even in the USA, arguably one of the most developed countries in the world preference for self employment had fallen from 61% in 2007 to 55% in 2008 (Bosma et al., 2008; Eurobarometer, 2009). In an emerging economy such as Latvia more than half of individuals consider entrepreneurship positively in terms of entrepreneurship as a high status (~65%), good career choice (~59%), and media attention to entrepreneurship (~57) (Kelley et al, 2010). However, and despite such positive factors attitudes entrepreneurs’ intention to launch start a business remains low in Latvia with only 21% (Kelley et al, 2010).

The purpose of this paper is to determine how entrepreneurship can be promoted in Latvia especially in the creative industries. If attitudes to entrepreneurship are positive but business start-up rates are low can the creative industries carve a way out of this contradiction by bringing disparate groups of artists and business people to work together for that end? Table 1 below provides a summary of the objectives of the research project, the approach and methods used for the study, and its outcomes

Table 1: Summary of Research Objectives, Approach, Methods and Outcomes

| <b>Research Objectives:</b>   | <b>Approach, Methods and Outcomes:</b>  |
|---|---|
| 1. Review literature and theory on entrepreneurship and creative industries with artists as a subset. This includes compiling and analyzing current statistics on entrepreneurship, new enterprises creation and artists in Latvia for comparison with other countries such as Finland. | Extensive liter, methods ature review including the leading statistical databases on innovation and entrepreneurship  |
| 2. Identify and assess the relative significance of the primary barriers that affect entrepreneurs and new ventures in Latvia at the external environment and personal levels for comparison with artists as a subset.  | Based on dependent and independent variables, four barriers were identified: Risk, Financial, Skills and Cultural. Artists exhibit different sensitivity to these factors than the general population.            |
| 3. Develop and then apply research methodologies and instruments to collect primary data to analyze the most important factor(s) that affect entrepreneurs and new ventures in Latvian with a more detailed investigation of artists as a subset.                                       | The research consisted of 3 phases with 5 RQs and 3 Hypotheses that were developed as the research progressed from desk research to 2 surveys, each acquiring deeper insight.                                     |
| 4. Draw general conclusions and recommendations including potential solutions.  | The thesis concludes that Latvian artists exhibit different entrepreneurial tendencies from other professionals that inhibit them from progressing beyond self-employment to ventures with high growth potential. |

An Overview of the Literature

Major Barrier to Start Business: Risk and Fear of Failure

Decisions about starting or growing a new venture are often made in conditions of variable uncertainty. Such uncertainty is widely associated with the tolerance of risk and that of ambiguity (Heuttel, 2006).

Risk is the possibility that something unpleasant may occur (Wennekers et al., 2004). It is also concerned with the making of decision without sufficient levels of confidence. Risk for many individuals is considered as a synonym for loss and usually risk perception varies with personality and culture (Brown and Damery, 2009). But what is it that suggests that entrepreneurship is a risky choice? The suggestion that entrepreneurship is risky is evinced by various documentation providing information on the high rate of failure of new ventures (Rosen and Willen, 2002). In Latvia GEM (2008) there is the tendency that one of two enterprises does not survive early stage.

At the same time risk is considered as stable feature of individual personality (March and Shapira, 2010) and there is no any difference between entrepreneurs and non-entrepreneurs. The difference appears only in perception and management of risk. Entrepreneurs perceive risk as a given and are focused on controlling the outcomes at any risk level. However bankers tend to control risk and try avoiding situations where they risk is in higher levels of personal responsibility (Sarasvathy et al., 1998).

Ambiguity generates contradictions, paradoxical situations all at once. The best that one can hope for is 'something may happen' (Wennekers et al., 2004) as uncertainty rules. Ambiguity could also occur even there is sufficient information but where a lack of confidence about any body of knowledge results in a stalemate or a withdrawal from decision making. In these situations individuals make a subjective response to knowledge and its use (Brown and Damery, 2009; Sproten et al., 2010). Entrepreneurs are considered to be more tolerant of ambiguity because they have better powers of judgment and they experience less ambiguity in concrete situations (Kelsey and Spanjers, 2004).

Who takes risks and who tolerates ambiguity? Is there a difference among young and older entrepreneurs? Taking risk is often regarded as being synonymous with being young but whether the older sections of the population are risk tolerant or risk averse has been debated for a long time (Mata et al., 2011). There is a strong belief that decision-making ability declines with aging (Peters et al., 2000; Dohmen et al., 2005; Mata et al., 2011). By way of contrast Kennedy and Mather (2007) argue that older individuals are better able to evaluate different aspects of available information based on previous experience, and make informed decisions. Kovalchic et al. (2003) found that older individuals are less biased than younger ones because older persons are more optimistic (positive emotions) and they have higher emotional experience. Mata et al. (2011) agree that adult persons are more risk-seeking than younger individuals. However Sporten et al. (2010) and Dror et al. (1998) argue that there is no difference between elder and younger individuals in risk taking behavior. The age factor has particular implications for Latvia because of the lack of exposure to entrepreneurship

among the older generation who learnt their 'trade' in a command economy whereas the youth there are increasingly attracted to western and capitalist models of a market-based economy.

### Major Barrier to Start Business: Finance and Other Resources

Entrepreneurship and access to finance are related because the absence or reduction of finance leads companies to possible failure (Gries and Naude, 2010). Such failure is often attributed to the lack of access or the availability of formal sources of finance such as bank lending, institutional venture finance or private equity. "Informal" financing such as money from relatives, colleagues, and friends are most popular in Latvia with 76% (Dombrovsky et al., 2006). Therefore, it shows that in Latvia family ties in starting business are considered very important. Those who do not have such support may find it difficult to start a business (GEM, 2006). "Formal" financing in Latvia is also available such as EU funds which are managed by the Ministry of Finance (Eiropas sociālais Fonds, 2009), together with bank support for entrepreneurs in the form of favourable loan facilities and also through various business competitions (Citadele, 2011; SEB bank, 2011).

But individuals are reluctant to take up offers of "formal" financing in order to start a business because of the fear of failure and bankruptcy (Peng et al., 2009). Bankruptcy law has a strong impact on entrepreneurship creation because it is considered as a security for entrepreneur (Lee et al., 2010). Entrepreneurship rate is much higher in those countries where the costs of entrepreneurial exit is lower while bankruptcy laws that increase the cost of exit reduce the level of entrepreneurship in a country (Lee et al., 2010; Peng et al., 2010). In the advent of the recent economic crisis Latvia has introduced a new out of court law which positively impacts the entrepreneurial environment (European Bank for Reconstruction and Development, 2011).

How failure is viewed in society has a great deal of influence on the supply of entrepreneurs in that society. Opinions vary. One considers failure to be a very positive experience (McGrath, 1999; Knott and Posen, 2005) but another believes that no second chance may be given to failed individuals (Lismane, 2011). Individuals who are experienced failure are more aware of what they do and what they know, and they have an acute sense of awareness of positive and negative consequences of their past actions (Rerup, 2005). Burchell and Hughes (2006) argue that lower rates of failed companies contribute to lower rates of innovations and economic growth. A contrary viewpoint suggests that if an individual cannot be allowed to fail in his/her first attempt then he will never have an opportunity to get a second chance or second chance may occur but it will be much more difficult (Wagner, 2002).

## Major Barrier to Start Business: Entrepreneurship Knowledge and Skills

Many scholars have highlighted the importance of interconnection between entrepreneurship and education (Wolkmann et al., 2009). Education is one of the main drivers that enforce economic recovery and sustained social development (European Commission, 2008). Therefore in a complex, fast-developing and fast-changing world education becomes a very useful engine that generates entrepreneurial future leaders, mindset (Wolkmann et al., 2009), awareness of career opportunities as an entrepreneur and skills (European Commission, 2003). However, education can only improve the environment for entrepreneurs but does not necessarily increase the number and supply of entrepreneurs (Aronsson, 2004). According to GEM (2009) there is still a lack of evidence about the influence of training and education, and especially entrepreneurship training and education. There is no significant difference between early stage entrepreneurs who received the training (80%) and early-stage entrepreneurs without training (67%) even though both the supply and demand for entrepreneurship education in the past few years has been growing dramatically (Kyro and Ristimaki, 2008, Jones and English, 2004; Alberti et al., 2004).

In the context of education a key problem is that schools and universities do not teach entrepreneurial skills because most educational institutions essentially teach and train their students to enter the world of waged employment and to work and manage for somebody (Aronsson, 2004). Very little is learnt about the 'how, why and what' of creating a new firm (Jones and English, 2004). Jones and English (2004) indicate that usually business schools teach quantitative and corporate technique skills rather develop entrepreneurial capabilities where the emphasis is, for example on imagination, creativity, risk taking, problem solving and networking, and related skills.

According to the European Commission (2008) such a deficit in entrepreneurship education is probably due to being a fairly new subject for Higher Education Institutions with the pioneering schools setting up entrepreneurship education programmes as recently as the late 1980s. Another reason may be connected with the absence of any real life experience or exposure to entrepreneurial activity and endeavour. European Commission (2008) data shows that only 25% of professors in the EU have entrepreneurial experience.

Available data shows that in Latvia the level of compulsory entrepreneurship education is one of the highest in 'efficiency-driven economies' (GEM 2009). However, the statistics show that there is a lot more that needs to be done; while 45% of individuals received start-up training in non-school education only 35% received them in school (Rastrigina and Dombrovsky, 2009). Such statistics do not of course show whether the former non-school education programmes are more effective than their school-based counterparts.

## Major Barrier to Start Business: Culture and Other Factors

Culture is defined as a set of shared values, beliefs, and expected behaviors (Herbig, 1994; Hofstede, 1980). A common model of culture (Hofstede, 2001), used in business research includes the following five factors: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation. Of the above five factors, individualism and uncertainty avoidance are closely related to entrepreneurial behavior as they dictate to the extent to which an entrepreneur is willing to take risks, and thinks independently to develop his/her business. The influence of culture in shaping the social institutions, financial institutions and the business environment is cyclical as these institutions reinforce cultural values of the society in the long term (Moore, 1986).

One of the factors that may affect the different entrepreneurship process is the history of country. Baltic countries (Latvia, Estonia, and Lithuania) are defined as transition countries (Aidis, 2003; Svejnar, 2001). In these countries it is in the reallocation of resources with the change from communism to a market-based economy capitalism, that new firms can play the main role (Estrin et al., 2005). According to the Estrin and Mickiewicz (2010) transition countries have much lower entrepreneurship rate rather other most developed market economies.

Corruption and regulatory frameworks are factors that encourage or inhibit entrepreneurship (Estrin et al., 2005; McMillan and Woodruff, 2002; Kaufmann and Siegelbaum, 1996). According to the data in Transparency International (2010) the corruption level in Latvia in year 2010 was 4,3 where in year 2008 it was 5 and in year 2009 it was 4,5. Regulatory framework statistics are available in Doing Business (2011) where it provides all the necessary information and data for entrepreneurship creation. It ranks countries from 1 to 183 where the higher figure means more difficulties in starting a business. It records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. According to recent data starting a business in Latvia is easier rather in other Baltic countries, because Latvia is listed in 21<sup>st</sup> place but Lithuania is in 27<sup>th</sup> and Estonia in 24<sup>th</sup> place. Such a relatively good indicator for Latvia may be connected with the newly implemented law for the entrepreneurs which allows them to start a business with an investment of only 1Ls. Another factor are taxes which grabs universal attention from entrepreneurs (Estrin and Mickiewicz, 2010). Doing Business (2011) data for Latvia has the worst ratio comparing with other Baltic countries. Latvia is listed in 67 place whereas Lithuania in 62 and Estonia in 51.

In transition countries the level of trust for and among individuals who went through the communism era is very low and this explains why entrepreneurial activity was less common for oldest generation than in other countries (Estrin and Mickiewicz, 2010). Such facts support the data provided by the European Commission (2008) which show that the oldest individuals (above 55 years of age) have the lowest rank in the 'likelihood to start the

business rate' category compared to other EU countries. The opposite is the case with the young generation (people less than 30 years of age). The older generation are characterized by a different set of values. They constitute a "block culture" where dependence had priority over self reliance (Estrin and Mickiewicz, 2010). The impact of globalisation and the capacity to adapt to new environments among the younger generation has a potentially positive effect on entrepreneurship development (Estrin et al., 2005).

### The Creative Economy and Entrepreneurial Artists

In today's world the creative economy which is boosted by the creative, knowledge intensive industries with high exploitation of intellectual property takes centre stage at both the national and international levels (Henry, 2007; Pratt, 2004). The Creative economy is considered as a service economy with 85 per cent of companies being service providers of one form or another (Henry, 2007). Such firms go beyond the traditional view by searching new ways for creating the value for customer (Insight, 2007). Europa (2010) declared the year 2009 of creativity and innovation that highly supported small and medium enterprises. Florida (2002) stress that creativity nowadays is highly valued by firms and it is implemented everywhere.

Creative industries are not only to be found in typical sectors of art, music, theatre, film, design, broadcast media, music, architecture, and publishing but also in such fields that are very closely related to the "knowledge economy". A creative economy list would also include computer services, communications, digital media, software development (Henry, 2007; Higgs et al., 2008). Recent data shows that the most popular and fast growing industry now is the computer industry especially its software, electronic publishing and computer game arms. Advertising is one step below the performing arts (Higgs et al., 2008).

Is a background in the arts an advantage for entrepreneurs in the creative economy? By Maslow's (1970) indicators suggest that the highest point in the human pyramid of needs are self-esteem and self-actualization. And element of art is the issue for self-actualization – the highest human needs with creative, original and innovative intentions of producers. Many definitions approve that entrepreneurship is a part of art (Anderson and Jack, 1999; Krueger and Foster, 2010). But the most common perception about "artistic" individuals is that they are "impractical". They are usually considered to be "poor performers in business" (Daum, 2005). Curiously where traditional logic and rationality in business environment nowadays are considered insufficient for creating and growing a successful enterprise. Art-based methods are increasingly been accepted as effective tools for managing the firm because of the growing trend for global connectedness, the need for managing in a chaotic and rapidly changing environment, and the decrease of experimentation costs (Taylor and Ladkin, 2009). Schein (2001) argues that society should pay more attention to the art and artist who provide

key tools for effective survival and growth in our changing world. There is a strong linkage and similarities between artists and entrepreneurs because they are both considered as exemplars and even heroes by society, they can make the intangible, tangible. Where artists value creation, entrepreneurs create value (Krueger and Foster, 2010). Artists have a perceptual range where they visualise more than others and in different and broader perspectives (Moussetis and Ernst, 2004). The artistic view encourages individual to see what is usually avoided or even forbidden. This helps to broaden the range of completely different feelings and perceptions. The most relevant ability of artist is creative improvisation (Schein, 2001) which leads to development of new product (Leybourne, 2007).

The majority of art organizations are non-profit ones because of the “romantic” belief in universal value of art and the authority of artists. There was a perception that artists’ originality, creativity and innovation should be free from external forces (Lee, 2005). Or as Hirschman (1983) found that artists first create and only then present a product to the customer who has a right to accept or reject it. From such a point of view ‘art entrepreneurs’ can be seen to market their products very differently from that of a average business entrepreneurs. Their marketing ‘strategy’ is not based on providing a product that meets consumer needs. In art entrepreneurship their philosophy is not to fulfill the marketing needs but sell the art object to those who are attracted to the product. The audience is found or built but the artwork or artistic result is not changed (Colbertt, 2005; Boorsma and Chiaravalloti, 2009; Lee, 2005; Kawashima, 2000). The only challenge is to reach a community or an audience (Lee, 2005).

Cultural changes impacted on the art organizations fundamentally, turning them into for-profit organizations through “arts marketing” (Lee, 2005). According to Lee (2005) there are some guidelines for artists involved in the implementation of “art marketing”. Firstly there should be an “exchange” between the customer and artist. It is normal when a consumer pays for aesthetic, social and psychological benefits. It is some kind of “exchange of values”. Secondly “relationship” marketing is one of the relevant issues in art marketing (Rentschler et al., 2002) for long-term viability where maintaining a relationship with the old customer is much more economical than attract new ones (Chen, 2007). Another guideline suggests that artists should find a balance between art and market centered perspectives (Sergeant, 1999). Authenticity is one of the “trends” that is deemed popular in society. It represents the artists’ personal touch where even a simple signature is valued high by society because people believe that the artist is “in” the artwork (Abbing, 2005).

Most artists do not have management skills because they are artists or, performers. They become managers by the happenstance. Generally they do not have skills of strategic planning, marketing, accounting and other managerial skills (Mokwa et al., 1980; Moussetis and Ernst, 2004). They do not know how to market and sell themselves and how to find the

audience (Debare, 2006). Therefore the arts are referred to as a low-income profession because only a few can live from their work. Normally they are not poor because usually they have another/second jobs (Abbing, 2005). Nevertheless it becomes relevant to teach them the basics of setting up a business (Mokwa et al., 1980). Most artists become self-employed (Dabre, 2006). Data show that most profitable artists in US are art directors with annual income of \$63,840 than architects (\$60,300) but the least profitable artists are dancers (\$17,760) and floral designers (\$20, 450) (Towse, 2010).

For artists a stigma of entrepreneurial education is very much alive. Therefore, it becomes an increasing problem to infuse or incentivise unemployed artists with value of any entrepreneurship training and education provision (Miller, 2007; Hart, 2011). The stigma persists for two reasons. Firstly it is the stereotypical artists' bias against some kind of scientific and academic education (Miller, 2007). They prefer less theory but more of learning by doing. The fear from the word "entrepreneur" because of its pedestrian associations with making money which can bury their art (Dabre, 2005; Miller, 2007). Secondly many schools are too conservative with a strong believe in the jurisdiction of art schools for artists (Miller, 2007). But even in those art schools where entrepreneurship training does occur the offering is generally made under the "softer" title or by way of short lectures (Hart, 2011). The vast majority artists are focused on the traditional career path to become the best and do not even imagine becoming an entrepreneur (Hart, 2011). An exposure to entrepreneurship through education and training provision could help artists to identify what makes them different and useful to the society (Hart, 2011). Artists can obtain sufficient augment their earnings from artistic knowledge without compromising their art (Dabre, 2006). Therefore art schools should include some basics of business education (Hills and Lumpkin (1997). Even if the artist cannot manage enterprise the values of collaboration and network creation can be considered particularly useful even if all other 'office work' is managed by another person (CreArt, 2011).

So how do creative people - artists and entrepreneurs- in creative industries in Latvia overcome the barriers to create new ventures? It is in the search for an answer to this overarching research question that we carry out in our empirical work for this paper.

## **Objectives**

The main objectives of this paper are to:

- a) investigate the primary barriers inhibiting entrepreneurs and new venture formation in Latvia;
- b) examine the barriers with reference to the creative industries and the behaviour and actions of two distinctive groups of creative people – artists and entrepreneurs and their ability to recognise opportunities for entrepreneurial activity.

## Methods

This paper tests the hypothesis that artists and other creative talent in Latvia should be the major contributors to forming ventures with high growth potential in the “creative industries” but in reality they are more likely to be individual entrepreneurs or self-employed with “life style” businesses. The research methodology was progressively refined by selecting the appropriate tools as the research activities progressed through the three phases:

Table 2: Three Research Phases and the Corresponding Research Methods Employed

| Research Phase  | Research Method or Instrument  |
|---|--|
| 1. Desk Research Identifying Primary Factors Inhibiting Entrepreneurs and New Ventures in Latvia with Artists and Other Creative Talent (artists) as a Subset | Desk research method<br><br>Desk research using secondary sources to identify the primary barriers to entrepreneurs and new ventures in Latvia with artists as a subset  |
| 2. Field Research Investigating Effect of Personal Risk Behavior and Perception on the Individual's Attitude towards Entrepreneurship                         | Quantitative web-based survey research method with limited number of qualitative open questions<br><br>Cross-sectional: Latvian professionals and artists as subset<br><br>Research tool – “Domain Specific Risk Attitude Scale” for Measuring Individual Risk Perception and Behavior (Weber 2002 and 2005; modified and translated by author)<br><br>Supplemental questions exploring Latvian attitude towards entrepreneurship and feasibility of starting new ventures for cross-correlation with risk profile (by author) |
| 3. Field Research Investigating the Attitude of Latvian Artists towards Business  | Quantitative personally administered survey research method<br><br>Sample: Latvian artists<br><br>Research tool – Survey assessing the attitude of Latvian artists towards business developed (by author)  |

After initially using desk research to identify the primary barriers to entrepreneurs and new ventures in Latvia with artists as a subset for comparison, a series of surveys and questionnaires were used to characterize the strength and weaknesses of artists as entrepreneurs. The hypotheses and research questions are the tools for the practical

investigation. Accordingly all hypotheses and research questions were developed stage-by-stage based on experience, correlations, successes and failures that occurred during the investigation. Therefore, between questions created strong relationships that contribute to the powerful and concrete research methodology building.

Table 3: Hypotheses and Research Questions for the Three Research Phases

|  |
|--|
| <p><b>Phase 1. Desk Research Identifying Primary Factors</b></p>   |
| <p>Research Question 1: What are the primary barriers inhibiting entrepreneurs and new venture formation in Latvia?</p> <p>RQ1.1. What is the effect of risk on general entrepreneurs and new ventures in Latvia?</p> <p>RQ1.2. What are the effects of financing on general entrepreneurs and new ventures in Latvia?</p> <p>RQ1.3. What are the effect of entrepreneurial skills and education on general entrepreneurs and new ventures in Latvia?</p> <p>RQ1.4. What are the effects of culture and other factors that significantly influence the number and quality of general entrepreneurs and new ventures in Latvia?</p>   |
| <p>Research Question 2: What are the primary factors inhibiting artists from progressing beyond self-employment to forming ventures with high growth potential?</p> <p>RQ2.1. What is the effect of risk on artists as entrepreneurs and their forming new ventures in Latvia?</p> <p>RQ2.2. What are the effects of financing on artists as entrepreneurs and their forming new ventures in Latvia?</p> <p>RQ2.3. What are the effect of entrepreneurial skills and education on artists as entrepreneurs and their forming new ventures in Latvia?</p> <p>RQ2.4. What are the effects of culture and other factors that significantly influence the number and quality of artists as entrepreneurs and new ventures they form in Latvia?</p> |
| <p><b>Phase 2. Field Research Investigating Effect of Personal Risk Behavior and Perception on Entrepreneurship</b></p>  |
| <p>Hypothesis 1: Latvian entrepreneurs display higher personal risk tolerance than non-entrepreneurs.</p> <p>Research Question 3: Does personal risk behaviour and perception affect the individual attitude towards entrepreneurship in Latvian?</p>  |
| <p>Hypothesis 2: Latvian artists as a subset exhibit higher risk tolerance and entrepreneurial ambition than average professionals.</p> <p>Research Question 4: Do Latvian artists exhibit higher risk tolerance and entrepreneurial ambition than average professionals?</p>  |
| <p><b>Phase 3. Field Research Investigating the Attitude of Latvian Artists towards Business</b></p>   |

Hypothesis 3: Latvian artist-entrepreneurs are more likely to be individual entrepreneurs or self-employed rather than leading ventures with high growth due to a poor attitude towards business skills and activities.

Research Question 5: What are the attitudes of Latvian Artists as creative talent towards various aspect of participating in business ventures?

### **Methods used for Phase 1: Desk Research**

Both primary and secondary data sources for current thesis are crucial to ensure that the theory, practical research and analysis are consistent and interconnected with each other. Secondary data is gained from the already existed resources such as previous research, statistical databases, reports, publications, and Internet sources (Global Entrepreneurship Monitor, Eurobarometer, Inno Metrics, Eurostats, and World Bank together with academic articles and books on the subject matter). Primary data was gathered through two structured surveys administered personally or using an Internet survey service Webropol.

### **Methods used for Phase 2: “Domain Specific Risk Attitude Scale” (DOSPERT) survey**

The survey instrument consists of two parts. The first part consists of questions developed by the author to collect demographic data and ascertain the individual's attitude towards entrepreneurship (Appendix 1). These questions were cross-referenced with questions from the Global Entrepreneur Monitor and other published surveys. The second part is the DOSPERT survey developed by Weber (2002 and 2005). The author used both versions.

The DOSPERT survey poses questions concerning hypothetical situations that are related to five domains: ethical, financial, social, and recreational and health/safety. The individual is asked to respond with the likelihood that they would engage in that activity while also assessing the perceived riskiness of the situation and that would derive benefits from that activity. The earlier version had 50 questions (10 per domain) while the more recent revised version has been validated with 30 questions (6 per domain) substantially reducing the time to complete the questionnaire<sup>40</sup>.

*Design for ease of use:* DOSPERT scale looks quite complex with questions that might bother or even offend some people. For this reason the author developed an introductory part for the questionnaire that assures individuals that survey questions emanate from a very powerful research tool (ELKE U. WEBER, A Domain Specific Risk Attitude Scale (DOSPERT) for Adult Populations (Journal of Judgment and Decision Making, 2005)). As the survey looks quite long the layout was developed in Webropol to present each question in a new window with the progress line where individual can see the percentage of answered and unanswered questions. To overcome the reluctance to answer long surveys, instructions

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<sup>40</sup> The Dospert analysis calculations and figures for risk perception and behavior as a function of the benefit/risk ratio was carried out with the help of Professor Arthur Lindemanis of RISEBA. The author acknowledges his support.

suggest respondents answer quickly and intuitively.

Translation: The author translated the survey into Latvian using the back-translation method. Translation from English to Latvian was made by the author. After that another independent person (who was selected by the author but who is knowledgeable in both languages) translated it back from the Latvian version to the English one. Accordingly two versions were compared and after that the most suitable translation was chosen.

Internet survey service Webropol: The DOSPERT survey was designed and conducted using Internet survey software “Webropol” available to RISEBA students. This software is a reliable and effective tool used widely with 40000 registered users. RISEBA students have an access to it by using password which is secured by the school. The Software provides a handbook on how to manage and build the survey. The structure is very comfortable to use with different options in the survey and the layout of the questions. Surveys were e-mailed directly to respondents with the software providing the possibility of seeing the direct number of surveys sent and the number of answers received. Answers came periodically and the system provided such tool as closing the survey which is useful because it allows the researcher to analyze gathered data without disturbing new incoming survey data. In addition, the system provided some data analysis tools. It also allowed for the exporting of data in excel format.

Survey process: The investigation of individual risk tolerance and entrepreneurial attitude combined results from the previous questionnaire survey in 2010 and the current one conducted in 2011.

2010 DOSPERT survey: DOSPERT version with 50 questions and 10 supplemental questions collected similar information in 2010: 55 responses from 300 e-mail invitations sent to participants in EEA Project LV0040 “Developing and delivering innovative training modules for Baltic executives using an interdisciplinary approach to entrepreneurship and advanced technologies” (15% response rate acceptable for target group).

2011 DOSPERT survey: DOSPERT version with 30 questions and 9 supplemental questions. All questions are closed to enable faster responses: 170 responses from 2522 e-mail invitations to RISEBA students and alumni using an official mailing list provided by RISEBA. The 6.7% response rate is reasonable given that the targeted group had minimal incentive to respond. The survey was administered personally by the author to 50 artists in the Latvian Academy of Art who were requested to complete the invitation. Consequently 50 responses were obtained.

### **Methods used for Phase 3: “Latvian Artist Attitude Towards Business” survey**

This survey was developed by the author to measure the attitude of artists towards entrepreneurship and business (Appendix 2). The survey consists of 18 closed questions for ease of answering. The questions overlap the GEM and University of Cambridge surveys for

cross-correlation with previous work. One interval scale question is used to obtain information about individual preferences

Translation: As the focus group was formed with artists in the Latvian Academy of Art it was necessary for the survey be available in Latvian. Accordingly, the survey was first developed in English and then translated using the method previously described for DOSPERT.

Survey process: The survey was carried out personally by the author to 50 faculty and students at the Academy of Art in Latvia using hard copies of the survey to facilitate their being administered and collected. All individuals returned the survey for a 100% response rate with 50 responses. Data gathered from “Artist Attitude towards Business Survey” was manually transferred into the Webropol software for analysis.

## **Findings**

### **Findings for Phase 1: Desk research identifying primary factors inhibiting entrepreneurs and new ventures in Latvia with artists as a subset**

The findings from the initial desk research phase overview is presented in the first part of the paper. This exercise was essential for identifying and assessing the primary factors that encourage or inhibit individuals, and more specifically artists as creative talent, from becoming entrepreneurs and starting new ventures. The research questions, research methodology, variables, and findings are presented in Figure 1 below. “*Results for Phase 1 Desk Research Identifying Primary Factors Inhibiting Entrepreneurs and New Ventures in Latvia with Artists as a Subset*”.

### Findings for RQ1: What are the primary barriers inhibiting entrepreneurs and new venture formation in Latvia?

This paper identified and then investigated the factors inhibiting general entrepreneurs and new venture formation through a comparative study of Latvian situation. Based on theoretical research, four primary barriers were identified as the most important barrier factors for entrepreneurship development: risk tolerance, financial resources and skills or knowledge and culture where self-awareness, motivation and interpersonal skills were identified as essential for success at the individual level.

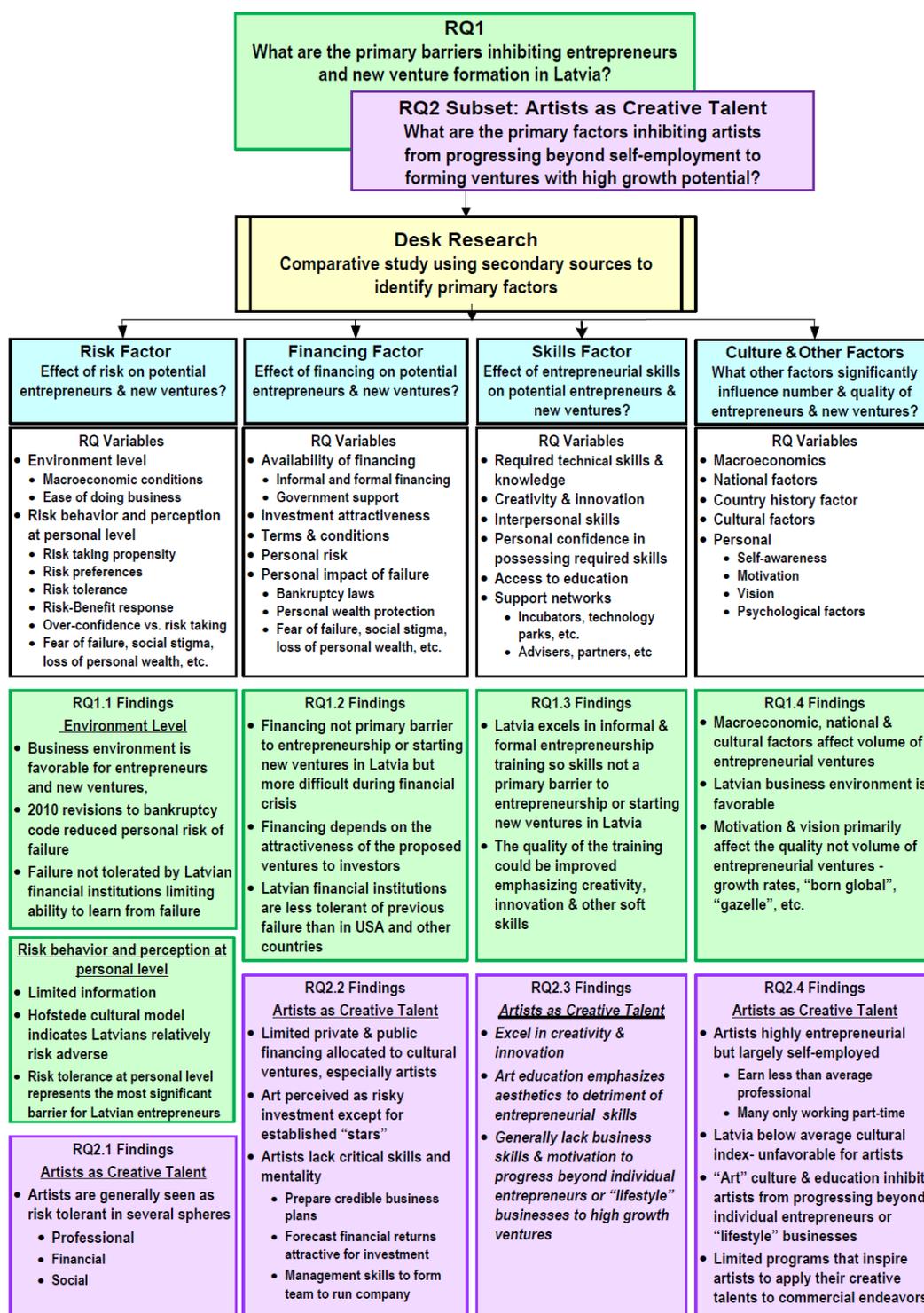
*For general entrepreneurs three of the four factors, financing, entrepreneurial skills and other factors, did not represent significant barriers. Research shows that in Latvia there is a plethora of entrepreneurial education provision compared with EU countries. Latvia also boasts of very favorable conditions in terms of ease of doing business at both the micro and macro-economic levels. Especially after the crisis in year 2010 insolvency law was improved positively for entrepreneurs. Neither the literature survey nor the other statistical data sources such as the Global Entrepreneurship Monitor, Eurobarometer, and Eurostats provide any information and framework that assess the effect of risk perception in general and especially in personal level to become an entrepreneur.*

*Findings for RQ2: What are the primary factors inhibiting artists from progressing beyond self-employment to forming ventures with high growth potential?*

This research question was developed as subset from the first research question which investigates artists as creative entrepreneurs. Through the desk research four barriers was investigated for artists as well such as risk tolerance, finances, education, and other factors.

Based on the literature review the author concludes that there are differences in barriers between general entrepreneurs and artists who want to become entrepreneur. The artist appear to be more entrepreneurial and risk tolerant than the general professional. More difficult conditions were identified for artists including poor access to financing with limited public and private investment together with education and culture that do not provide them with business skills.

Figure 1: Results for Phase 1 "Desk Research Identifying Primary Factors Inhibiting Entrepreneurs and New Ventures in Latvia with Artists as a Subset" (by author)



## **Findings for Phase 2: *Field research investigating effect of personal risk behaviour and perception on entrepreneurship***

This exploratory research was conducted in order to correlate the attitude towards entrepreneurship of Latvians with the individual's risk profile. The questions regarding entrepreneurial attitude were taken from the Global Entrepreneurship Monitor (2010) and the University of Cambridge Self-Effectuation Enterprise Questionnaire to allow cross-referencing. The risk profile was determined using the DOSPERT instrument developed by Weber (2003 and 2005). Both variants were used by author.

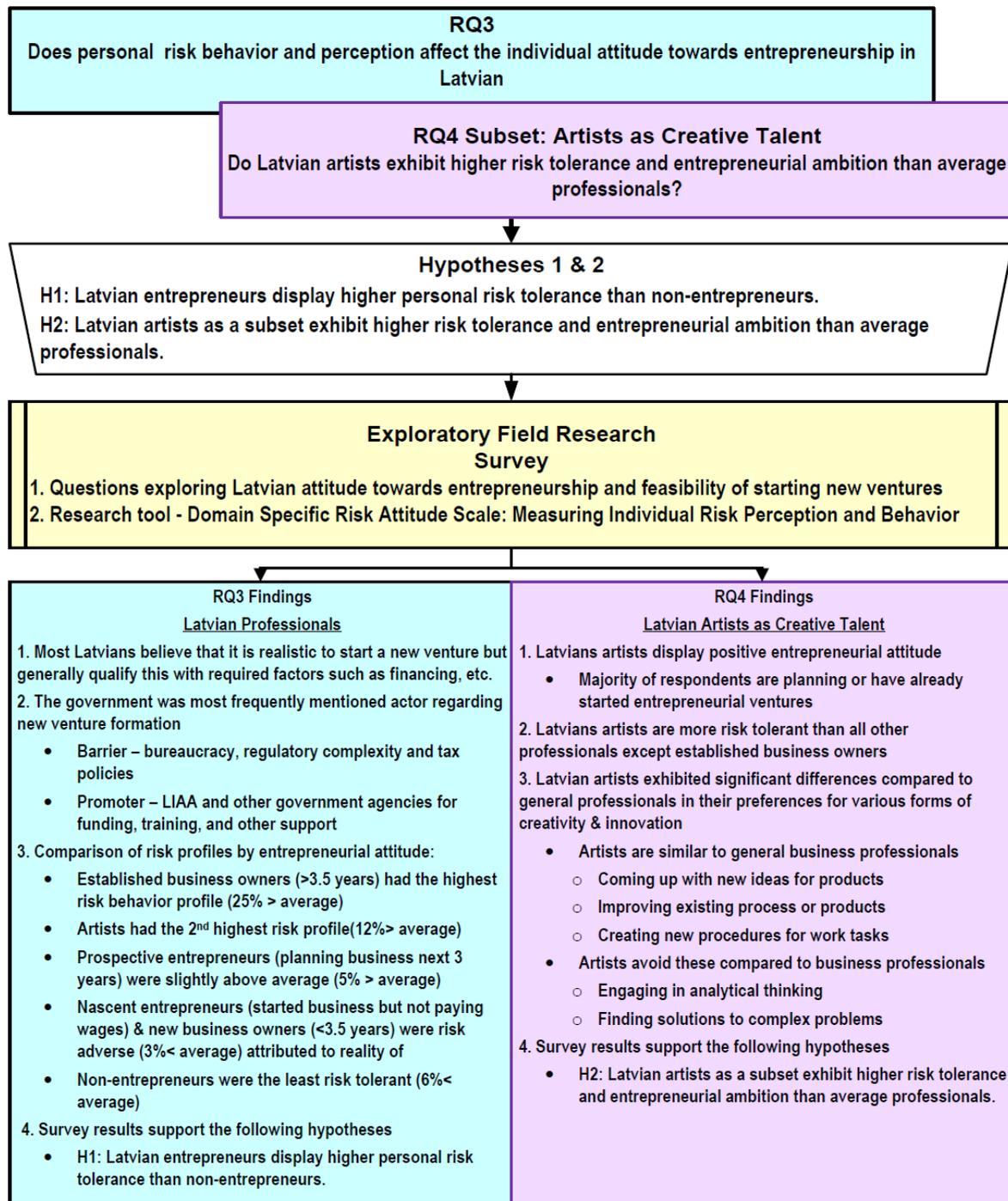
### *Sampling*

The investigation of risk tolerance and entrepreneurial attitude combined results from the previous questionnaire survey in 2010 and current one conducted in 2011:

the first survey in 2010 was conducted sending invitations to 360 participants in the EEA LV-0040 Project "Developing and delivering innovative training modules for Baltic Executives using an interdisciplinary approach to entrepreneurship and advanced technologies" with 55 responses. The 15% response rate is acceptable for a targeted group;

the second survey was conducted in year 2011 sending e-mail invitations to 2522 RISEBA students and alumni with 170 responses. The 6.7% response rate is reasonable given that the targeted group had minimal incentive to respond. For comparison with the business students and professionals, author interviewed 50 artists in the Latvian Academy of Art with the 100% response rate.

Figure 2: Results for Phase 2 “Field Research Investigating Effect of Personal Risk Behavior and Perception on Entrepreneurship” (by author)



**Findings for questionnaire:** *More detailed findings and interpretations for Exploratory Field Research Survey for questions exploring Latvian attitude towards entrepreneurship and feasibility of starting new venture are presented in Appendix 3.*

**Findings for (DOSPERT):** *Individual risk perception and behaviour for respondents with artists as a subset*

The Domain-Specific-Risk-Taking scale (DOSPERT) survey instrument was used for investigating the risk perception and behaviour of Latvians with artists as a subset for comparison. Following Weber (2002 and 2005), the analysis examines the relationship among the following variables for five domains:

Table 4. Variables for DOSPERT risk profile survey (Weber, 2002 and 2005 by author).

|                     |   |  |   |
|---------------------|---|--|---|
| <b>Risk Domains</b> | Ethical<br>Financial<br>Health and safety<br>Recreational<br>Social | <b>Variables</b><br>6 questions per domain | <b>B Benefit:</b> Perceived benefit from engaging in the proposed activity<br><b>R Risk:</b> Perceived risk from engaging in the proposed activity<br><b>L Likelihood:</b> Likelihood of engaging in the proposed activity used as independent variable |
|---------------------|---|--|---|

This Benefit/Risk analysis is analogous to the financial analysis. The variance for benefit/risk behavior across the five domains for a given individual is less than the variance between different individuals. This is shown below for a representative response in Figure 3.

Figure 3: *Risk Perception and Behaviour as function of the Benefit/Risk ratio and the Likelihood of engaging in proposed activities for each risk domain*<sup>41</sup>

- ◆ Ethics 57
- Finance 57
- ▲ Health 57
- × Recreation 57
- × Social 57

<sup>41</sup> Calculations and figures prepared with the support of Professor Arthur Lindemanis.

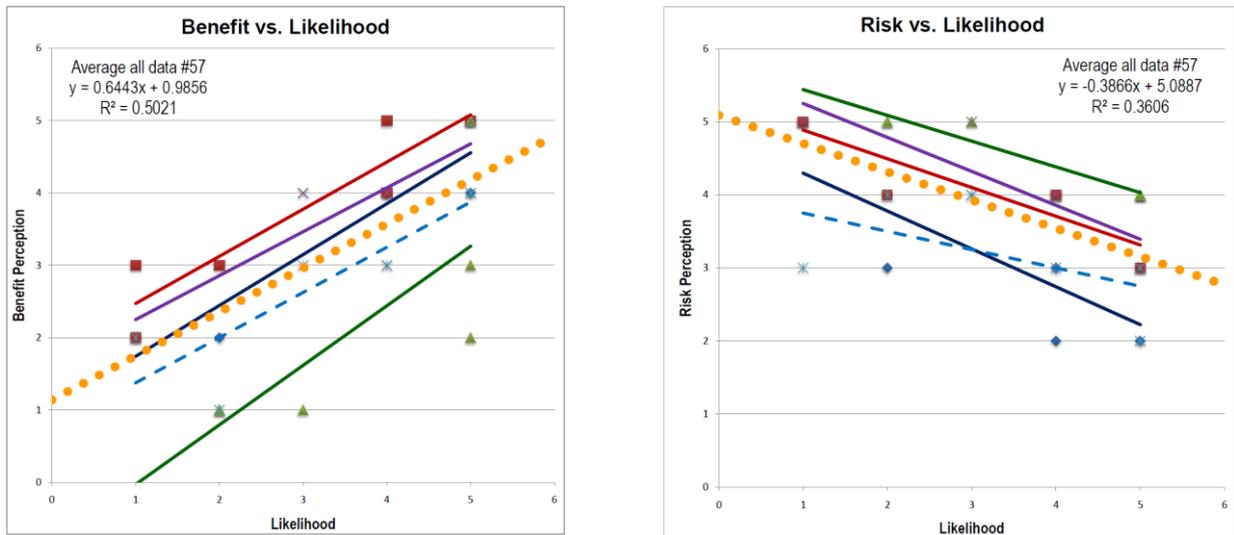
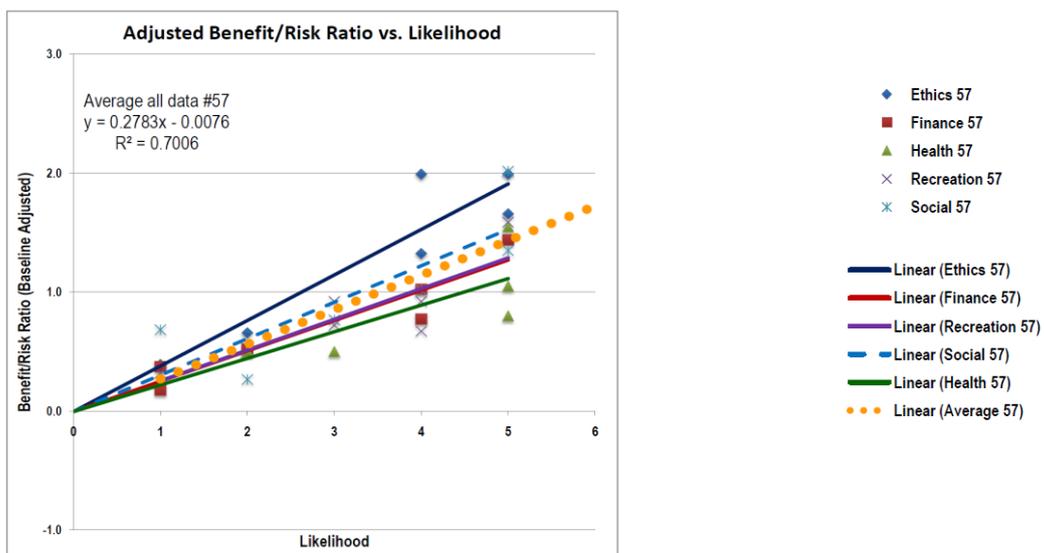
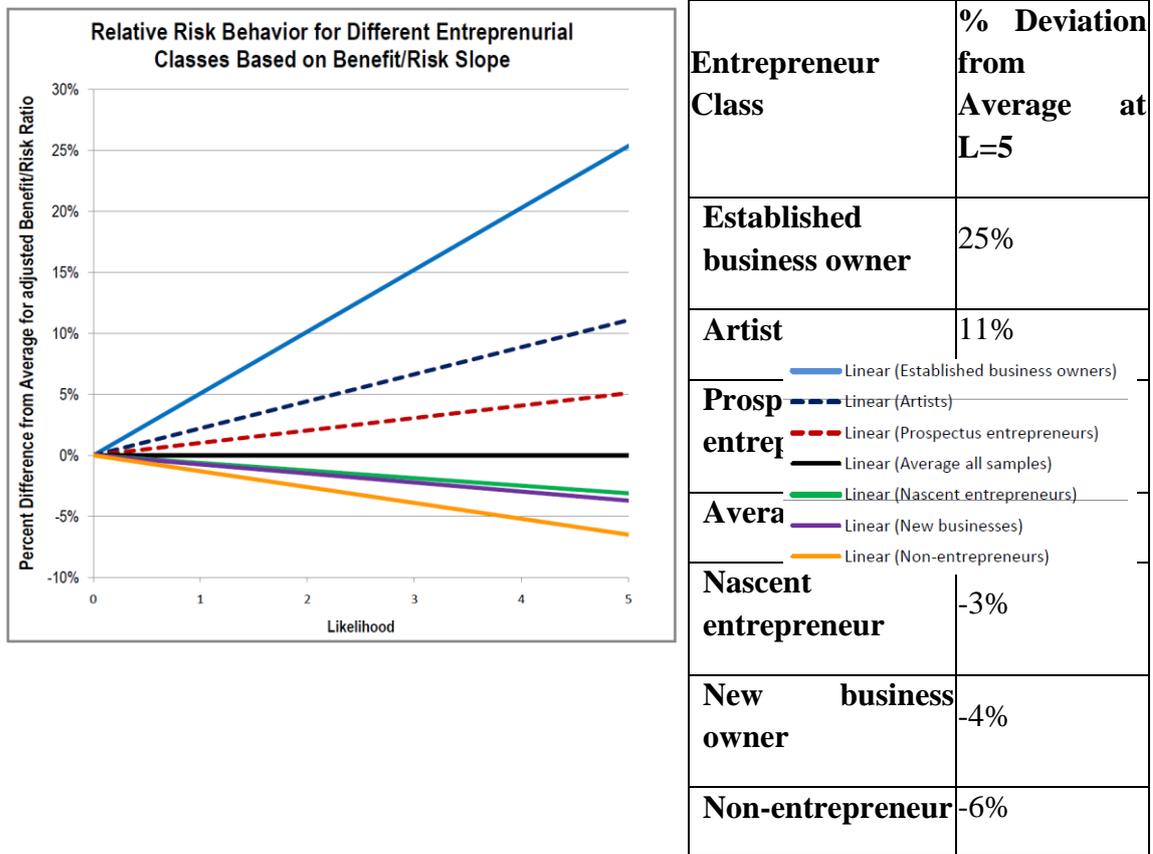


Figure 4: Adjusted Risk Perception and Behaviour as function of the Benefit/Risk ratio and



the Likelihood of engaging in proposed activities for each risk domain

Figure 5: *Relative Risk Behavior for Different Entrepreneurial Classes*



Findings and interpretation:

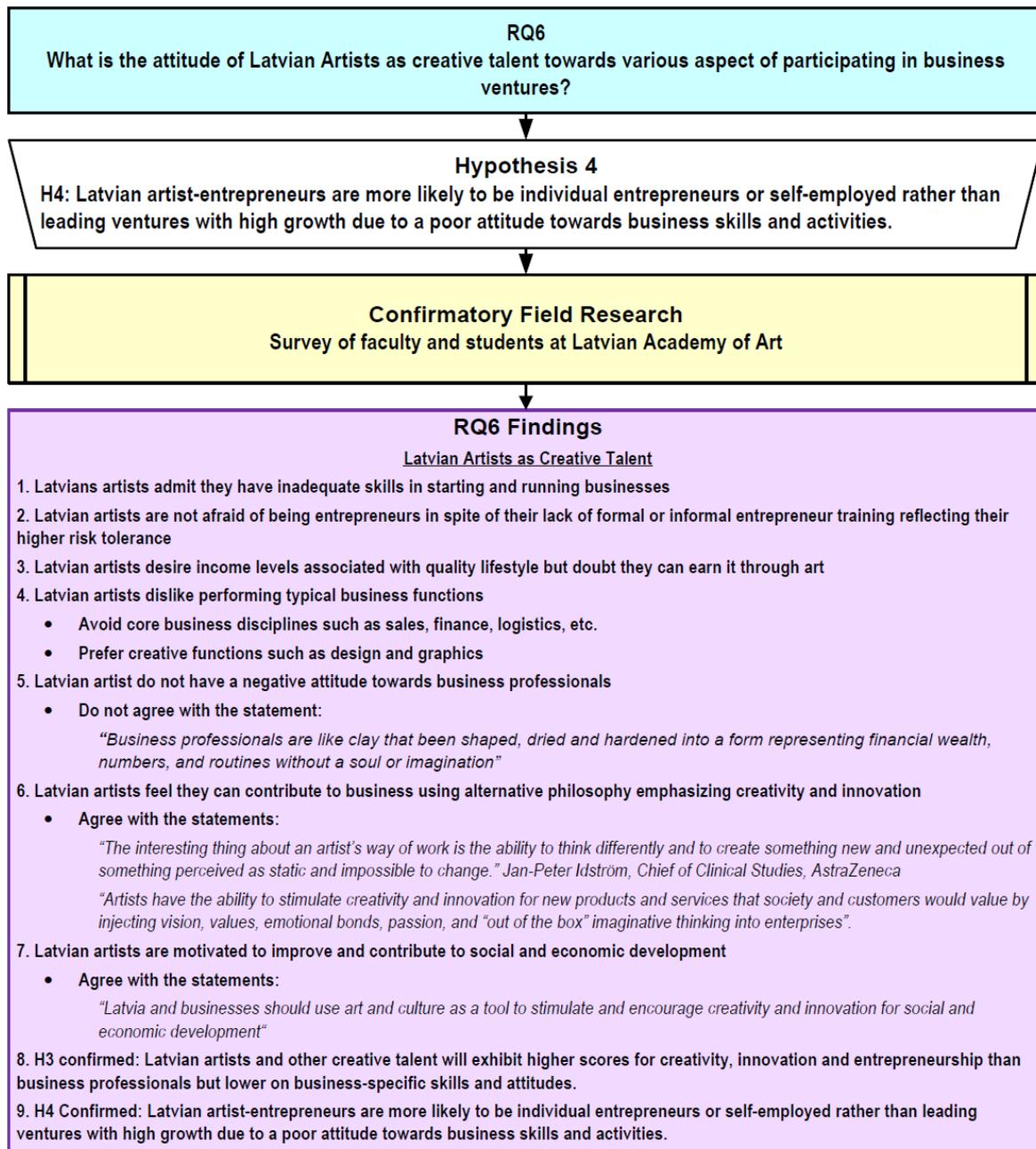
1. The DOSPERT survey exhibited the expected functional behavior with the Likelihood of the individual engaging in the proposed activity is directly related to the perceived Benefit and inversely related to the perceived Risk.
2. Adjusted Benefit/Risk Ratio normalizes the risk behavior over the five risk domains leading to increased statistical confidence.
3. Established business owners perceive the highest benefit and lowest potential risk for activities that they find attractive. Artists exhibit the 2<sup>nd</sup> highest rate.
4. The below average rates for nascent and new business owners are attributed to their facing the realities of business in contrast to the prospective entrepreneur.
5. The lowest rate was for non-entrepreneurs.
6. This confirms Hypothesis 1 and 2 in combination with the previous findings.

**Findings for Phase 3:** *Field research investigating the attitude of Latvian artists towards business*

This survey was developed by the author with 18 closed questions to measure the attitude of artists towards entrepreneurship and business. The questions overlap the GEM and University

of Cambridge surveys for cross-correlation with previous work. The respondents were 50 faculty students at the Academy of Art in Latvia. For detailed interpretations see Appendix 4.

Figure 6: Results for Phase 3 Field Research Investigating the Attitude of Latvian Artists towards Business



## Concluding Observations

### Conclusions for Phase 1: Desk Research Identifying Primary Factors Inhibiting Entrepreneurs and New Ventures

*Research Question 1: What are the primary barriers inhibiting entrepreneurs and new venture formation in Latvia?*

*Research Question 2: What are the primary factors inhibiting artists from progressing beyond self-employment to forming ventures with high growth potential?*

### General Population

The desk research identified four primary factors that inhibit entrepreneurs and new venture: Risk, Financial, Skills and Cultural. Risk perception and behavior at the personal level represents the most significant barrier for Latvian entrepreneurs. The other factors are generally viewed as favorable or neutral in comparison to other countries although they do affect the quality of the new ventures.

The business environment is favorable for entrepreneurs and new ventures, especially since the 2010 revisions to bankruptcy code reduced personal risk of failure. With access to LIAA and other funding sources, financing is not a primary barrier to starting new ventures in Latvia but did become more difficult during the financial crisis in common with many other countries in Europe. Entrepreneurial skills and competencies are not a primary problem since Latvia excels in providing informal and formal entrepreneurship training. The cultural factors affect the personal attitudes towards motivation and vision that strongly influence the quality and growth rates of entrepreneurial ventures (“born global”, “gazelle”, etc.)

There is limited information concerning risk behavior and perception at personal level. The Hofstedian cultural dimensions indicate that Latvians have relatively high levels of uncertainty avoidance which suggests that they are risk averse.

### Artists

Overall artists are very entrepreneurial but they lack relevant issues such as finances, skills and mentality that are essential for new venture creation:

- art is perceived as a risky investment except for established “stars” therefore cultural ventures, especially artists, have limited private & public financing;
- artists lack critical, business skills, motivation and the kind of mentality necessary to progress beyond individual entrepreneurs or “lifestyle” businesses to high growth ventures where they mainly fail in preparing credible business plans, forecasting financial returns attractive for investment, demonstrating management skills to form a team to run a new firm, while excelling in creativity & innovation at the same time;
- art education emphasizes aesthetics to the apparent detriment of entrepreneurial *skills*;
- artists are highly entrepreneurial but largely self-employed, they earn less than the average professional and many working only in part-time;
- artists are generally seen as risk tolerant in several spheres as :professional, financial, and social.

## **Conclusions for Phase 2: Field Research Investigating Effect of Personal Risk Behaviour and Perception on Entrepreneurship**

### General Entrepreneurs

*Hypotheses 1: Latvian entrepreneurs display higher personal risk tolerance than non-entrepreneurs.*

*Research Question 3: Does personal risk behavior and perception affect the individual attitude towards entrepreneurship in Latvian*

Despite barriers at the level of government and financial services the general attitude toward new venture creation in Latvia is positive with entrepreneurs displaying higher personal risk tolerance than non-entrepreneurs:

- survey results support Hypothesis 1;
- established business owners (>3.5 years) had the highest risk behavior profile but nascent entrepreneurs (started business but not paying wages) and new business owners (<3.5 years) were risk averse whereas non-entrepreneurs were the least risk tolerant;
- most Latvians believe that it is realistic to start a new venture but generally qualify this with required factors such as financing;
  - the government was the most frequently mentioned actor regarding new venture formation because of either barriers such as those of bureaucracy, regulatory complexity and tax policies; or as:
  - Promoters – LIAA and other government agencies for funding, training, and other support

### Artists

*Hypotheses 2: Latvian artists as a subset exhibit higher risk tolerance and entrepreneurial ambition than average professionals.*

*Research Question 4: Do Latvian artists exhibit higher risk tolerance and entrepreneurial ambition than average professionals?*

Artists had the second highest risk profile with a very high entrepreneurial attitude.

- Latvians artists display positive entrepreneurial attitude where the majority of artists are planning or have already started entrepreneurial ventures?
- Latvians artists are more risk tolerant than all other professionals except established business owners.
  - Latvian artists exhibited significant differences compared to general professionals in their preferences for various forms of creativity & innovation.
  - Artists are similar to general business professionals in such issues as: coming up with new ideas for products, improving existing process or products, creating new procedures for work tasks.
  - Compared to business professionals artists avoid engaging in analytical thinking and finding solutions to complex problems

## **Conclusions for Phase 3: Field Research Investigating the Attitude of Latvian Artists towards Business**

*Hypothesis 3: Latvian artist-entrepreneurs are more likely to be individual entrepreneurs or self-employed rather than leading ventures with high growth due to a poor attitude towards business skills and activities.*

*Research Question 5: What is the attitude of Latvian Artists as creative talent towards various aspect of participating in business ventures?*

- Latvian artist-entrepreneurs are more likely to be individual entrepreneurs or self-employed rather than leading ventures with high growth due to a poor attitude towards business skills and activities;
- Latvian artists and other creative talent will exhibit higher scores for creativity, innovation and entrepreneurship than business professionals but lower on business-specific skills and attitudes;
- Latvians artists admit they have inadequate skills in starting and running businesses;
- Latvian artists are not afraid of being entrepreneurs in spite of their lack of formal or informal entrepreneur training reflecting their higher risk tolerance;
- Latvian artists desire income levels associated with quality lifestyle but doubt they can earn it through art;
- Latvian artists prefer creative functions such as design and graphics, despite their dislike for performing typical business functions where they avoid core business disciplines such as sales, finance, logistics; .
- Latvian artist do not have a negative attitude towards business professionals;
- Latvian artists are motivated to improve and contribute to social and economic development.

#### Policy and Business Development Considerations

The above findings provide some ammunition for effective policy and business development in Latvia with specific reference to the Creative Industries. If the Latvian government is to actively support the growth of these industries then it has to:

- first recognise the dual nature of the creative industries and its key stakeholders – the artists and the business professionals;
- emphasise the demand side by developing policies and instruments that support networking and problem solving skills among artists and between artists and professionals;
- promote both the intrinsic value of art to encourage art for artists and the economic and social value creation of art in industry to attract business and community interest in art.
- encourage policies for holistic education development programmes which allow education institutions at all levels to combine better learning for the recognition of both art and business as generating social and economic value for society.

Business development involving local business federations could take a more active role in the inclusion of art and aesthetics in the making, packaging and sale of products and services involving local artists. Such an approach could be complemented by sponsorship of local art and how it can enhance economic activity. This could help to develop local value creation and break down the traditional barriers between art and business. Art schools in Latvia could

work more closely with business schools to develop curriculum and research agendas that deal with attitudinal development together with the acquisition of a range of skills which build on the given set of entrepreneurial behavioural skills of artists.

The bringing together of art and business through effective measures can help to meet the key objective of creative talent contributing more significantly to sustainable and high growth new venture creation in Latvia and her creative industries.

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### **Appendices**

Appendix 1. Survey for investigating personal risk behaviour and entrepreneurial attitude

**Entrepreneurship in Latvia**



Economic development policies at regional, national and EU levels identify creativity, innovation and entrepreneurship as the keys to drive growth.

This survey is carried out as part of CAL4INO Project. Please take 10-15 minutes to complete it. The results will be used to help create the next generation of entrepreneurs and new ventures.

**1) Gender \***

- Male  Female

**2) Age \***

- 18  
 18-24  
 25-34  
 35-44  
 45-54  
 55-64  
 65-

**3) Education \***

- High school  
 Some university education  
 Bachelor degree  
 Master and higher

**4) Which category best applies to you professionally? \***

- Prospective entrepreneur** (Individual who is planning to start their own business within three years.)  
 **Nascent entrepreneur** (Individual who is actively trying to start up a new business that he or she will fully or partially own. This new business has already passed the stage of being a plain idea, because the individual has taken some active steps over the last 12 months that would help launch this business. However, the business is not yet fully operating, since it has not paid wages for more than three months to its owners.)  
 **New business owner** (Individual who manages and fully or partially owns a new business that has paid wages to its owners for more than three months, but for less than 42 months (3.5 years).)  
 **Established business owner** (Individual who manages and at least partially owns a business that has paid wages to its owners for more than 42 months (3.5 years)).  
 **Nonentrepreneur** (Individual who over the next three years does not intend to engage in business activities. They are persons who are not owners of the company or who do not own the company stocks. They may be the company's executives and other officials who receive remuneration for their work, including students and others.)

**5) How important do you feel are the following traits? Rate from lowest (1) to highest(5). \***

|  | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Finding solutions to complex problems *  | <input type="radio"/> |
| Coming up with new ideas for products *  | <input type="radio"/> |
| Engaging in analytical thinking *        | <input type="radio"/> |
| Creating new procedures for work tasks * | <input type="radio"/> |
| Improving existing process or products * | <input type="radio"/> |

**6) How important do you feel the following learning methods are for increasing your creativity and innovation abilities. Rate from lowest (1) to highest (5). \***

|   | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Formal academic programs *                    | <input type="radio"/> |
| Seminars and workshops *                      | <input type="radio"/> |
| Learning by doing under professional guidance | <input type="radio"/> |
| Work-based learning and experience            | <input type="radio"/> |
| Peer-to-peer and self-learning *              | <input type="radio"/> |

**7) Do you have the necessary knowledge and skills required to start a new business? \***

- Yes  No

8) Do you know someone personally who started a business in the past 2 years? \*

Yes  No

9) Does a fear of failure would prevent you from starting a business? \*

Yes  No

Some of the following questions may be provocative, but they come from a serious research tool (ELKE U. WEBER, Ann-Renée Blais. A Domain-Specific Risk-Taking (DOSPERT) scale for adult populations (Journal of Decision Making, 2005)

Your answers are very important to us to investigate Latvian entrepreneur risk profile. Please answer each question quickly and intuitively.

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

10) Admitting that your tastes are different from those of your friends. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

11) Going hiking with tent in the desert. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

12) Betting a day's income at the horse races. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

13) Investing 10% of your annual income in stocks rather than saving account. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

14) Drinking heavily. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

15) Not declaring all your income on your tax return. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

16) Disagreeing with an authority figure on a major issue. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

17) Playing high-stake poker game. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

18) Having an affair with a married man/woman. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

19) Passing off somebody else's work as your own. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

20) Going down a dangerous ski run that is beyond your ability. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

21) Investing 5% of your annual income in a very speculative stock. (A stock in a new, small, or otherwise obscure company with a possibility of experiencing an extraordinary return but a higher likelihood of failure.) \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

22) Going whitewater rafting at high water in the spring. \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

23) Betting a day's income on the outcome of a sporting event. \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

24) Engaging in unprotected sex. \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

25) Revealing a friend's secret to someone else. \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

26) Driving a car without wearing a seat belt. \*

|                     | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Likelihood *</b> | <input type="radio"/> |
| <b>Risks *</b>      | <input type="radio"/> |
| <b>Benefits *</b>   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

27) Investing 10% of your annual income in a new business venture. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

28) Taking a skydiving class. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

29) Riding a motorcycle without a helmet. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

30) Choosing a career that you truly enjoy over a more secure one. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

31) Speaking your mind about an unpopular issue in a meeting at work. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

32) Sunbathing without sunscreen. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

33) Bungee jumping off a tall bridge. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

34) Piloting a small plane. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

35) Walking home alone at night in an unsafe area of town. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

36) Moving to a city far away from your family and friends. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

37) Starting a new career in your mid-forties. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

38) Leaving your young children alone at home while running an errand. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

**Column 1 Likelihood:** you should evaluate the likelihood of engaging in each activity from 1 which is very unlikely to 5 which is very likely.

**Column 2 Riskiness:** you should evaluate how risky you perceive each situation, from 1 which is not at all risky to 5 which is extremely risky.

**Column 3 Benefits:** you should evaluate the benefits you would obtain from each situation, from 1 which is no benefits at all to 5 with great benefits.

39) Not returning a wallet you found that contains \$200. \*

|              | 1 Low                 | 2                     | 3                     | 4                     | 5 High                |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Likelihood * | <input type="radio"/> |
| Risks *      | <input type="radio"/> |
| Benefits *   | <input type="radio"/> |

Thank you!

Tesniagt



## Appendix 2

### Survey for artists' attitude toward entrepreneurship

#### Gender

- Male
- Female

#### Age

- 18
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65-

#### Education

- Incomplete secondary
- High school
- Bachelor degree
- Master and higher

What is your position?

---

Which category best applies to you professionally?

- Prospective entrepreneur** (Individual who is planning to start their own business within three years.)
- Nascent entrepreneur** (Individual who is actively trying to start up a new business that he or she will fully or partially own. This new business has already passed the stage of being a plain idea, because the individual has taken some active steps over the last 12 months that would help launch this business. However, the business is not yet fully operating, since it has not paid wages for more than three months to its owners.)
- New business owner** (Individual who manages and fully or partially owns a new business that has paid wages to its owners for more than three months, but for less than 42 months (3.5 years).)
- Established business owner**. (Individual who manages and at least partially owns a business that has paid wages to its owners for more than 42 months (3.5 years)).
- Non-entrepreneur** (Individual who over the next three years does not intend to engage in business activities. They are persons who are not owners of the company or who do not own the company stocks. They may be the company's executives and other officials who receive remuneration for their work, including students and others.)

**Have you ever taken a course in Enterprise/Entrepreneurship/Business development before?**

- No
- Yes

**Do you have the necessary knowledge and skills needed to start a new business?**

- No
- Yes

**Do you know someone personally who started a business in the past 2 years?**

- No
- Yes

**Does a fear of failure would prevent you from starting a business?**

- No
- Yes

**Do you already have your own business or you wish to start own business?**

- No
- Yes

**What kind of salary you would like to receive in the future?**

- < 300 LVL
- 300 LVL -500 LVL
- 500 LVL – 1000 LVL
- > 1000 LVL

**What is the possibility that you will receive the selected salary as an artist?**

|     |   |        |      |   |
|-----|---|--------|------|---|
| Low |   | Medium | High |   |
| 1   | 2 | 3      | 4    | 5 |

What is your motivation? To pursue creative expression related to art or to pursuing material wealth and prestige through business and commercial products/services.

Select 1, if it is more business or select 5, if it is more art

|          |   |   |     |   |
|----------|---|---|-----|---|
| Business |   |   | Art |   |
| 1        | 2 | 3 | 4   | 5 |

Imagine a situation where you are one of the co-developer of the company that created innovative product. The company is preparing to manufacture and sell products in Latvian and also internationally. How much would you be willing to undertake the proposed activity? Mark 0 if you are immature and 100, if you assume for a given activity.

|  | 0% | 25% | 50% | 75% | 100% |
|--|----|-----|-----|-----|------|
| Product and packaging design             |    |     |     |     |      |
| Advertising material design              |    |     |     |     |      |
| Sales                                    |    |     |     |     |      |
| Raising money                            |    |     |     |     |      |
| Logistics                                |    |     |     |     |      |
| Bookkeeping                              |    |     |     |     |      |
| Running venture not just manager but CEO |    |     |     |     |      |

How much you agree with given statements? Tick 1 if you completely agree, and 5, when you completely disagree.

The interesting thing about an artist's way of work is the ability to think differently and to create something new and unexpected out of something perceived as static and impossible to change.

|            |   |         |            |   |
|------------|---|---------|------------|---|
| Completely |   | Neutral | Completely |   |
| 1          | 2 | 3       | 4          | 5 |

Artists have the ability to stimulate creativity and innovation for developing new products and services for all companies that society and customers would value by injecting vision, values, emotional bonds, passion, and "out of the box" imaginative thinking into enterprises.

|            |   |         |            |   |
|------------|---|---------|------------|---|
| Completely |   | Neutral | Completely |   |
| 1          | 2 | 3       | 4          | 5 |

Business professionals are like clay that been shaped, dried and hardened into a form representing financial wealth, numbers, and routines without a soul or imagination –almost impossible to reshape.

|            |  |         |            |  |
|------------|--|---------|------------|--|
| Completely |  | Neutral | Completely |  |
|------------|--|---------|------------|--|

|   |   |   |   |   |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

**Latvia and businesses should use art and culture as a tool to stimulate and encourage creativity and innovation for social and economic development**

|            |   |         |            |   |
|------------|---|---------|------------|---|
| Completely |   | Neutral | Completely |   |
| 1          | 2 | 3       | 4          | 5 |

### Sampling and respondent demographics

Table 3.1. Demographics of Respondents

| Demographics |                   | General Business | Artists |
|--------------|-------------------|------------------|---------|
| Number       | 2011              | 170              | 30      |
|              | 2010              | 55               | 0       |
| Gender       | Male              | 31%              | 27%     |
|              | Female            | 69%              | 73%     |
| Age          | Average (Mode)    | 18-24            | 18-24   |
|              | Range             | 18-65+           | 18- 65+ |
| Education    | High school       | 7%               | 0%      |
|              | Some university   | 32%              | 27%     |
|              | Bachelor          | 39%              | 53%     |
|              | Master and higher | 22%              | 20%     |

The sample group consists mainly from female (2/3) respondents. Individuals are highly educated (Table 3.1.) as would be expected from using university faculty, alumni and students sample.

### Latvian attitude towards entrepreneurship

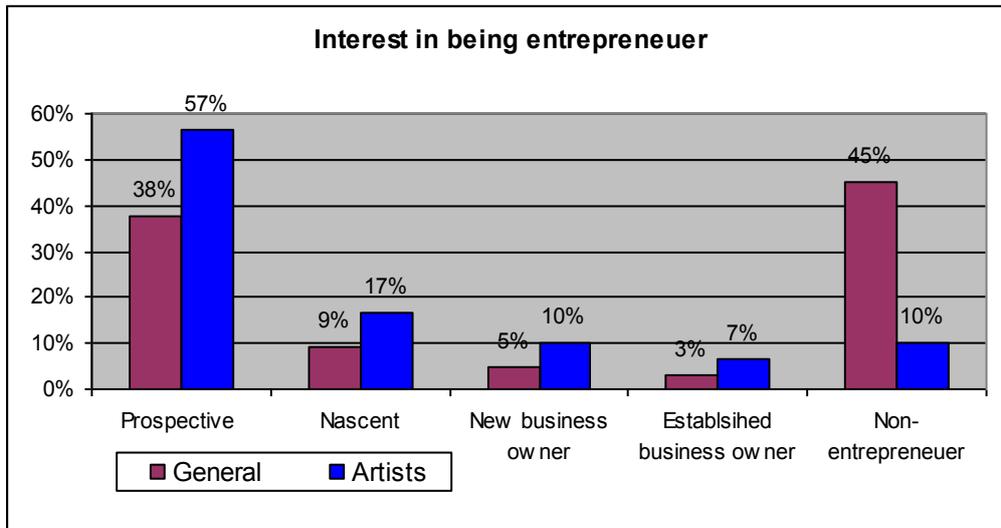
Respondent interest in being entrepreneurial is given in Table 3.2 and the corresponding Figure 3.1. The five categories are according to the Global Entrepreneurship Monitor definitions to permit comparison.

Table 3.2. Respondent Interest in Being Entrepreneurial (by author).

| Category                        | Definition of Categories  | General | Artists |
|---------------------------------|---|---------|---------|
| <b>Prospective entrepreneur</b> | Individual who is planning to start their own business within three years.  | 38%     | 57      |
| <b>Nascent entrepreneur</b>     | Individual who is actively trying to start up a new business that he or she will fully or partially own. This new business has already passed the stage of being a plain idea, because the individual has taken some active steps over the last 12 months that would help launch this business. However, the business is not yet fully operating, since it has not paid wages for more than three months to its owners. | 9%      | 17%     |
| <b>New business owner</b>       | Individual who manages and fully or partially owns a new business that has paid wages to its owners for more than three months, but for less than 42 months (3.5 years).  | 5%      | 10%     |

|                                   |   |     |     |
|-----------------------------------|---|-----|-----|
| <b>Established business owner</b> | Individual who manages and at least partially owns a business that has paid wages to its owners for more than 42 months (3.5 years) | 3%  | 7%  |
| <b>Non-entrepreneur</b>           | Individual who over the next three years does not intend to engage in business activities.  | 45% | 10% |

Figure 3.1. Respondent Interest in Being Entrepreneurial (by author)



The respondents expressed exceptionally high interest in entrepreneurship: 55% for the general respondents and 90% for the artists. Only 10% of the artists expressed their intention to be non-entrepreneurs compared to 45% for the general respondents. These rates are higher than reported by GEM or OECD. The interpretation includes:

1. Positive attitude of Latvian artists towards entrepreneurship is consistent with the literature.
2. Potential sample bias: There may be bias for the general responses since invitees with entrepreneurial tendencies might be more inclined to respond to the survey. Respondent bias would be minimal for the artists since the survey was distributed randomly at the Academy of Art with 100% returns.
3. Relatively young respondent age (18-24) and higher average education is consistent with higher interest in entrepreneurship than the Latvian population.

The survey questions provided deeper insights to Latvian entrepreneurial attitudes.

Table 3.3. Open-ended questions concerning Latvian attitudes towards entrepreneurs and new venture formation (2010 DOSPERT survey by author)

|   |
|---|
| <p><b>1. How realistic do you think is the possibility to start a new business in Latvian?</b></p> <p>The vast majority (88%) believed that the possibility to start a business in Latvia was realistic. Most respondents attached provisional conditions such as financing, innovative product, or network.</p> <p>The non-entrepreneurs provided nearly all of the negative responses</p> |
| <p><b>2. In Latvia how much can an entrepreneur expect to earn from a new venture in 3-5 years? How realistic do you think is the possibility to start a new business in Latvian?</b></p> <p>Only six respondents (10%) offered a quantitative response ranging from 500-1000 Ls/month to 50,000 Ls/year. The rest provided “depends” type answers.</p>                                     |
| <p><b>3. What do you believe are the primary barriers that challenge entrepreneurs in Latvia?</b></p>   |

|  |
|--|
| <p>The leading barriers mentioned were 1) Government, 2) Financial system, 3) Economic crisis and 4) Corruption. Representative comments are given below:<br/>         Poor overall economic situation in Latvia. High taxes. Corruption.<br/>         Taxation, business climate, banking system's short-sightedness.<br/>         no viable exit barriers, no functioning government or active private equity sector (business angels or venture capital funds)</p>  |
| <p><b>4. What do you believe are the primary risks facing Latvian entrepreneurs?</b></p> <p>The primary risks mentioned focused on government (taxes, red tape, etc.), customers, financial challenges (credit and cash flow), management, and economic circumstances. Representative comments are given below:<br/>         High tax, bureaucracy, hard to gain consumer trust<br/>         Red tape; suspiciousness of customers<br/>         Poor overall economic situation in Latvia. High taxes. Corruption .<br/>         taxes; no demand from Latvian clients, have to deal with exports mainly<br/>         lack of finance and lack of friend who already start business.</p>                                   |
| <p><b>5. Do you believe that the risk of failure and possible bankruptcy inhibit potential entrepreneurs?</b></p> <p>The responses identified the full range of possible failure mechanisms as indicated by the representative comments below:<br/>         economic situation is so unstable at moment that without the buffer of internal resources and little or no access to external finance, the risks of bankruptcy are very high<br/>         Bankruptcy risk and financial liabilities after it<br/>         Limited understanding of success factors for new ventures - market validation, financing, etc.<br/>         Mismanagement.<br/>         Lack of innovative thinking<br/>         Fear of failure</p> |
| <p><b>6. What do you believe would help encourage Latvian entrepreneurs successfully start and grow new venture?</b></p> <p>Improved government was mentioned in 68% of the responses. The economic condition was mentioned by 35% with a range of other answers.<br/>         stabilization of economy. although the situation is a bit better now, still very few has the trust to this economy and, of course, the government<br/>         government support programmes (legal, tax advice etc).<br/>         International experience<br/>         Willpower and fearlessness</p>   |

While the majority believed that it was realistic to start new ventures in Latvia, most were ready to identify the challenges. The primary barrier was seen as the government through taxation policy, red tape and corruption. The financial system and poor economics were the most mentioned problems after the government. The non-entrepreneurs tended to be more negative about the challenges facing entrepreneurs. The types of answers regarding problems were fairly similar. The interpretation includes:

1. The belief that it is realistic to start new ventures consistent with RQ1 findings.
2. Blaming external factors is consistent with other business surveys in Latvia (e.g., Swedbank, 2011) even though previous research indicates that external factors for entrepreneurship and new venture formation in Latvia are favorable (RQ1).

The 2011 survey contained five closed rather than open questions due to the 2010 experience with reluctance of respondents to provide meaningful answers to open questions:

1. Relative importance of various entrepreneurial traits to the respondents (1-5)

2. Relative importance of various learning methods to increasing creativity and innovation capabilities (1-5)
3. The relative extent to which respondents have the necessary knowledge and skills to start a business (1-5)
4. The extent to which respondents know someone who has started a business within the last two years (Y/N)
5. The extent to which fear of failure prevents respondents from starting a business (Y/N)

As shown by Figure 3.2., artists differ from the general respondents tending to prefer creative activities such as generating new ideas, creating new procedures and improve existing processes or products. Artists are less inclined to engage in analytical thinking or finding solutions to complex problems. Interpretation:

1. Artists prefer creative activities involving “design thinking” rather than highly analytical approaches preferred by conventional business analysis.
2. This partially confirms Hypotheses 2 and 3.

Figure 3.2. Relative importance of various entrepreneurial traits to the individual respondent (by author)

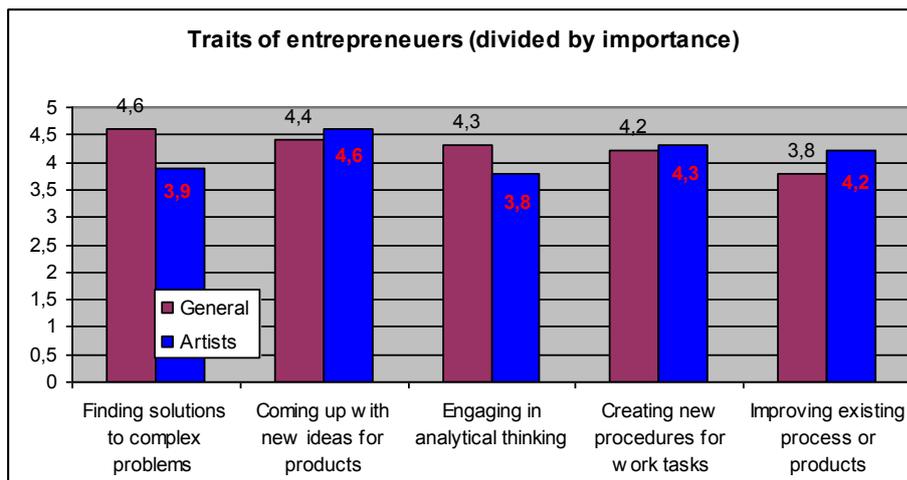
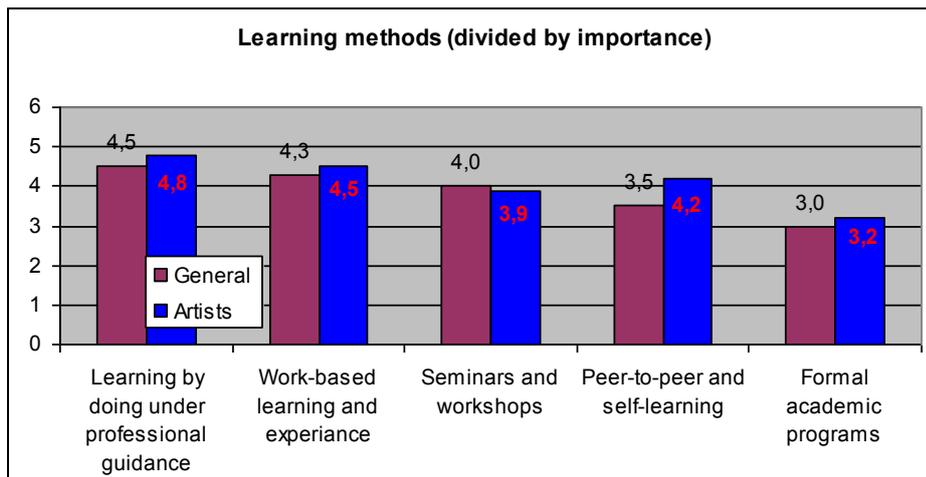


Figure 3.3. Relative importance of various learning methods to increasing creativity and innovation capabilities (by author).



Overall both groups present the similar tendency concerning education methods (Figure 3.3.) but the artists stated that they lacked formal or informal training in entrepreneurship (Figure 3.4). Interpretation:

1. Artists expressing 20% higher appreciation for peer-to-peer and self-learning than the general respondent is consistent with their values as individuals.
2. Artists expressed far less confidence in their business skills (approximately 50% less) as was expected.
3. The finding that general Latvian respondents (59%) believe they have the required knowledge is higher than reported by GEM and OECD surveys but consistent with the sample being drawn primarily from the business community.
4. Although 73% of artists do not feel they have necessary knowledge and skills required to start business, this does not inhibit their entrepreneurial intention.
5. This partially confirms Hypotheses 2 and 3.

Figure 3.4. The relative extent to which respondents have the necessary knowledge and skills to start a business (by author).

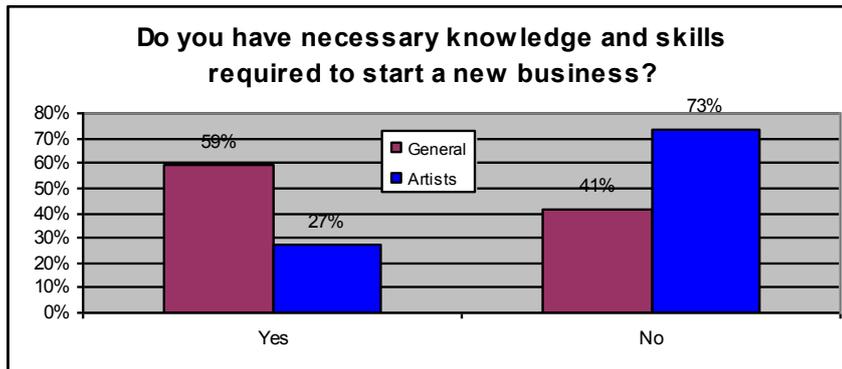
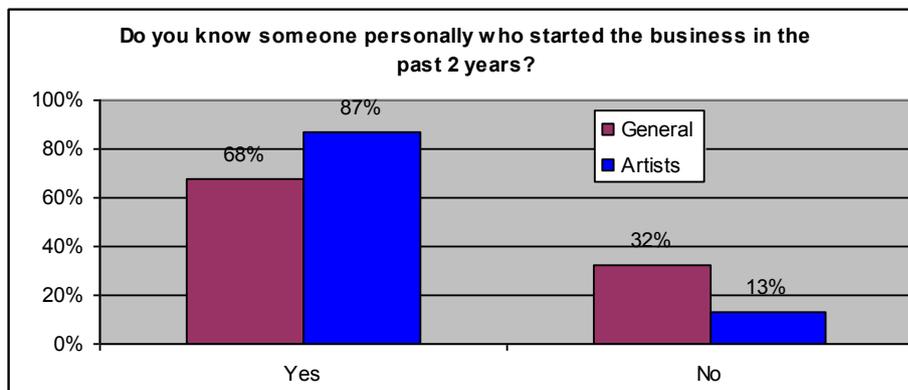


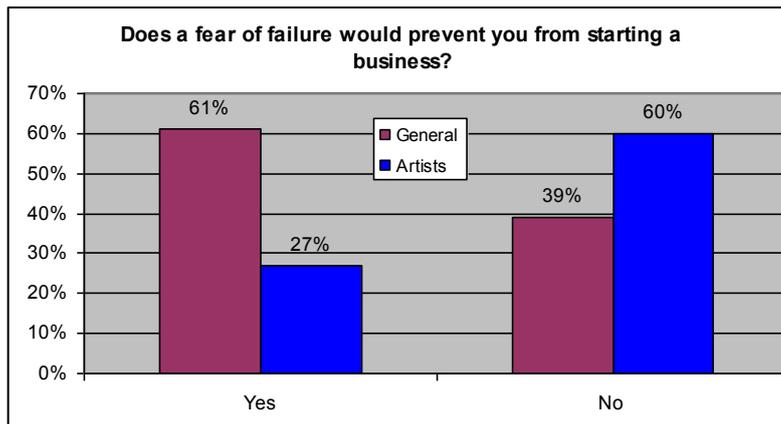
Figure 3.5. The extent to which respondents know someone who has started a business within the last two years



As expected, there are significant contrasts between the general respondents and artists with the general respondents 3x more likely to not know anyone who has started a business within the last 3 years Interpretation:

1. The higher familiarity of artists with new business owners (87%) is consistent with their higher entrepreneurial tendencies.
2. The 68% positive response in general is higher than reported by GEM and other surveys but can be attributed to bias in the survey population as explained previously.

Figure 3.6. The extent to which fear of failure prevents respondents from starting a business (by author)



Interpretation:

1. Artists have approximately 2X less fear of failure than the general respondents (60% versus 39%).
2. The low fear of failure for artists in spite of their lacking the knowledge and skills to start a business is consistent with their higher risk tolerance and entrepreneurial tendencies as proposed in Hypothesis 2.
3. This partially confirms Hypotheses 2.

## Appendix 4

### Sampling and respondent demographics

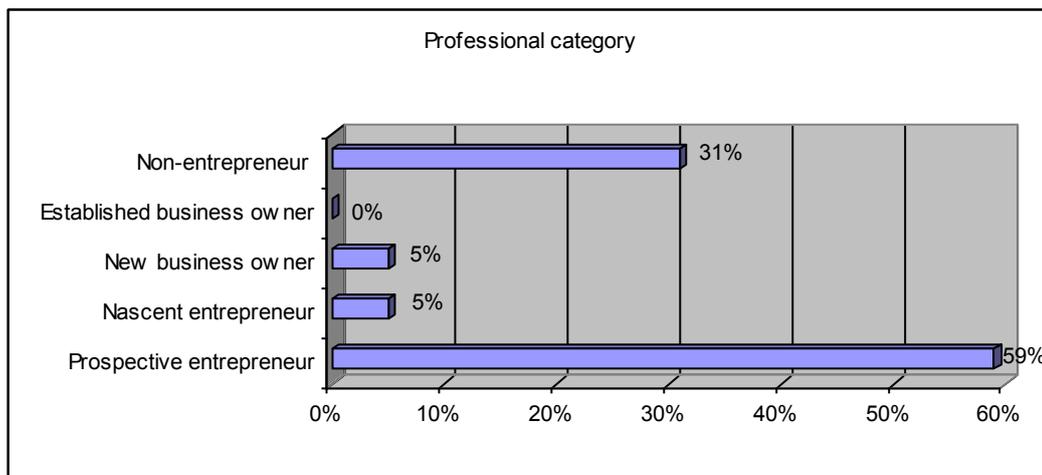
The survey was conducted within selected group of Art Academy students in Latvia. Questionnaire was administrated personally to get reliable and fast responses where 50 participants were involved.

Table 4.1. Demographics of Respondents

| Demographics     |                   |      |
|------------------|-------------------|------|
| <b>Numbers</b>   | Date              | 2011 |
|                  | Artists           | 50   |
| <b>Gender</b>    | Male              | 23%  |
|                  | Female            | 77%  |
| <b>Age</b>       | 18 -24            | 32%  |
|                  | 25 – 65+          | 68%  |
| <b>Education</b> | High school       | 0%   |
|                  | Some university   | 19%  |
|                  | Bachelor          | 66%  |
|                  | Master and higher | 15%  |

The sample group consists mainly from female (2/3) respondent it appears due to the fact that textile, ceramic, painting, restoration, and art history divisions were fuller rather graphic design, computer design etc. divisions where are considered to be more male representatives. Individuals are highly educated as would be expected from using Art Academy students' sample.

Figure 4.1. Respondent Entrepreneurial Category



The artists expressed exceptionally high interest in entrepreneurship 69%. Only 31% of the artists expressed their intention to be non-entrepreneurs. These rates prove previous conducted DOSPERT survey. The interpretation includes:

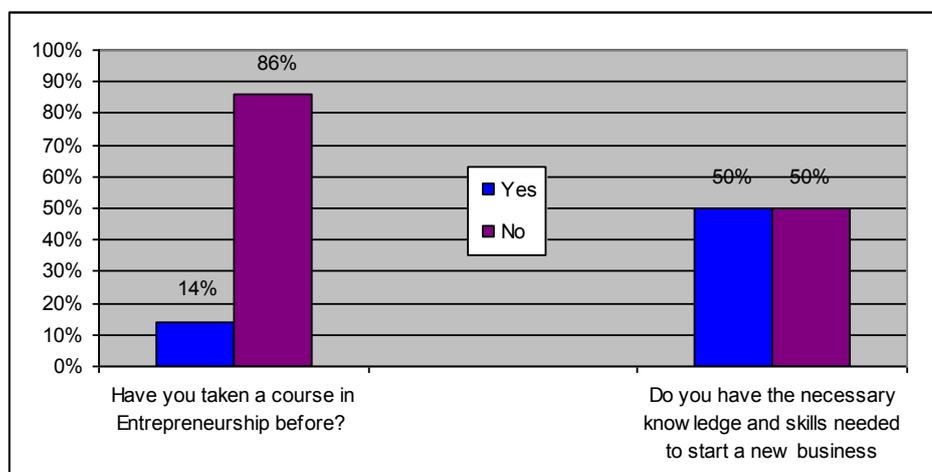
4. Positive attitude of Latvian artists towards entrepreneurship is consistent with the literature and partially confirms Hypothesis 2.
5. Respondent bias is minimal for the artists since the survey was distributed randomly at the Academy of Art with 100% returns.

### Latvian attitude towards entrepreneurship

The survey contained five closed questions towards artist attitude to entrepreneurship:

1. The relative extent to which respondents have taken courses in entrepreneurship or business (Y/N)
2. The relative extent to which respondents have the necessary knowledge and skills to start a business (Y/N)
3. The extent to which respondents know someone who has started a business within the last two years (Y/N)
4. The extent to which fear of failure prevents respondents from starting a business (Y/N)
5. The extent to which respondents already have or wish their own business (Y/N)

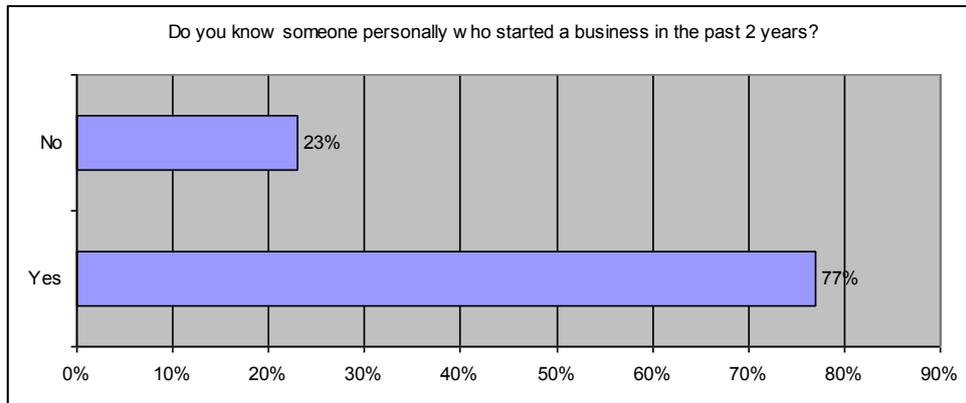
Figure 4.2. Entrepreneurship education and skills of respondents



Overall artists believe that they have necessary skills for new venture creation but in reality majority of artists don't have taken business courses ever. Interpretation:

1. The finding that half of artists believe they have the required knowledge which is quite similar to results presented in DOSPERT.
2. Although 86% of artists do not have taken entrepreneurship or business courses ever.
3. This partially confirms Hypotheses 2
4. Business education does not significantly impact the individual to become an entrepreneur.

Figure 4.3. Network of respondents



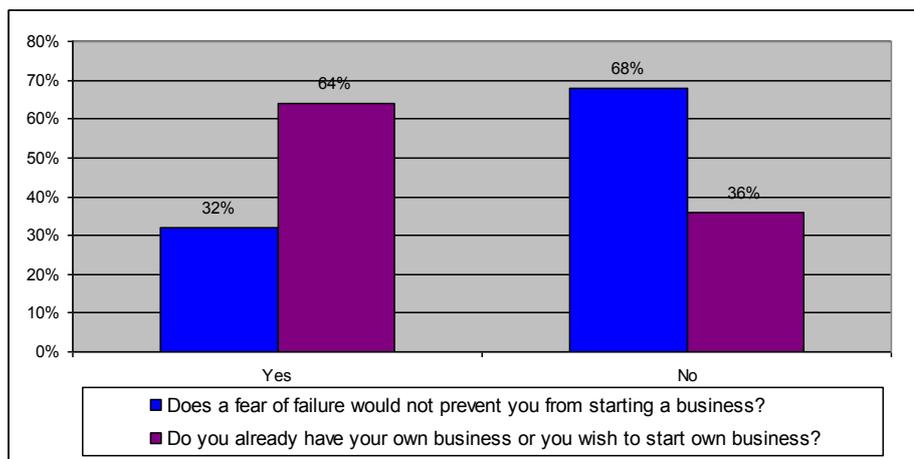
Majority of Latvian artists have a network where person is started his own business. Interpretation:

1. 77% individuals know someone who was started the new venture in the past two years and 23% of individuals do not have such network.
2. All categories know someone who started the business and only half non-entrepreneurs do not have such network.

As expected, majority of artists don't have fear that describes them as risk takers and most of them are planning or already are owners of the business. Interpretation:

1. 68% of artists do not have fear of creating new venture and 64% of them wish or already own the business.
2. The low fear of failure for artists in spite of their lacking the knowledge and skills to start a business is consistent with their higher risk tolerance and entrepreneurial tendencies as proposed in Hypothesis 2.

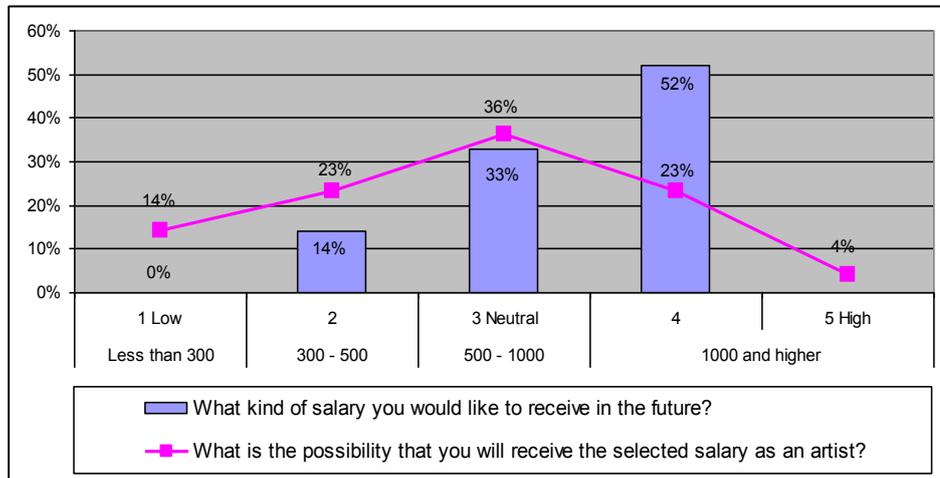
Figure 4.4. Attitude of respondents toward new venture creation and fear



3. This partially confirms Hypotheses 2.

- All categories are risk takers that confirms Hypothesis 2 and only half of non-entrepreneurs fear of business failure.
- Artists elder than 35 years have not fear to start a business as proposed in Hypothesis 2.

Figure 4.5. Desired future wage and realistic evaluation of desired income of respondents



Overall individuals are willing to get higher reward for their work but they are almost sure that through art desired money is not possible to earn even there is no confidence of getting low wages. Interpretation:

- 85% are desired to get salary which is higher than 500 Ls.
- Although 14% of artists will be satisfied with salary within 300 Ls to 500 Ls.
- Those who have business education desire to get remuneration within 500 and 1000 because they are more realistic and individuals (56%) without entrepreneurial education want to get more than 1000 Ls.
- 43% of artists with fear of failure are more likely to get salary such 300-500 Ls however individuals with no fear 100% desire the remuneration that is higher than 500 Ls.
- Only non-entrepreneurial respondents are less willing to get high wages and even 50% will be satisfied with salary that is lower than 500 Ls.
- Non-entrepreneurs (43%) who desired low wages (300-500) are unsure in the probability of getting them.

### Latvian attitude toward creativity

The next six questions represent artist's attitude toward creativity.

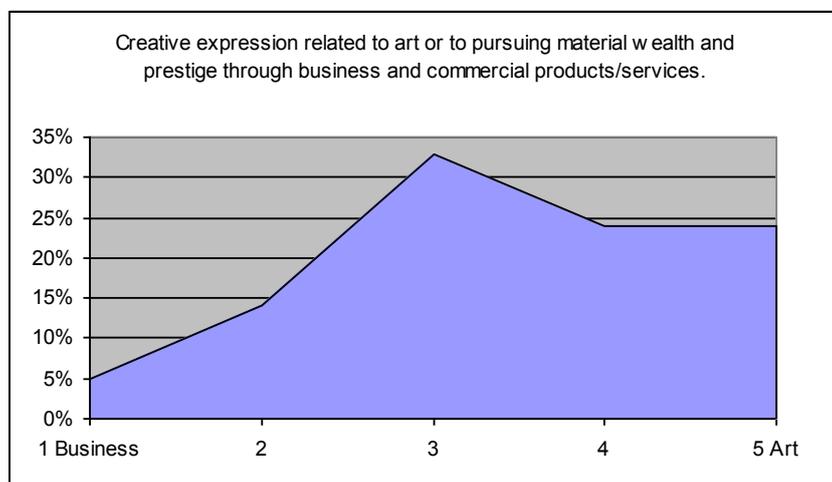
- The relative extent to which respondents have higher preferences to art or business (1-5)
- The relative extent to which respondents have chosen desired activities in new business (0%-100%)
- The interesting thing about an artist's way of work is the ability to think differently and to create something new and unexpected out of something perceived as static and impossible to change. (1-5)
- Artists have the ability to stimulate creativity and innovation for developing new products and services for all companies that society and customers would value by

injecting vision, values, emotional bonds, passion, and “out of the box” imaginative thinking into enterprises. (1-5)

5. Business professionals are like clay that been shaped, dried and hardened into a form representing financial wealth, numbers, and routines without a soul or imagination –almost impossible to reshape. (1-5)
6. Latvia and businesses should use art and culture as a tool to stimulate and encourage creativity and innovation for social and economic development. (1-5)

Mainly artists are creative individuals with desire to do only art or with art related issues, therefore such business actions as logistics, bookkeeping, and rising money completely prevent them to do business. Artists really believe that artistic individuals are more creative and they may impact any business and economy for growth and innovation. In order they have a positive perception concerning business individuals.

Figure 4.6. Individual preference to business or art

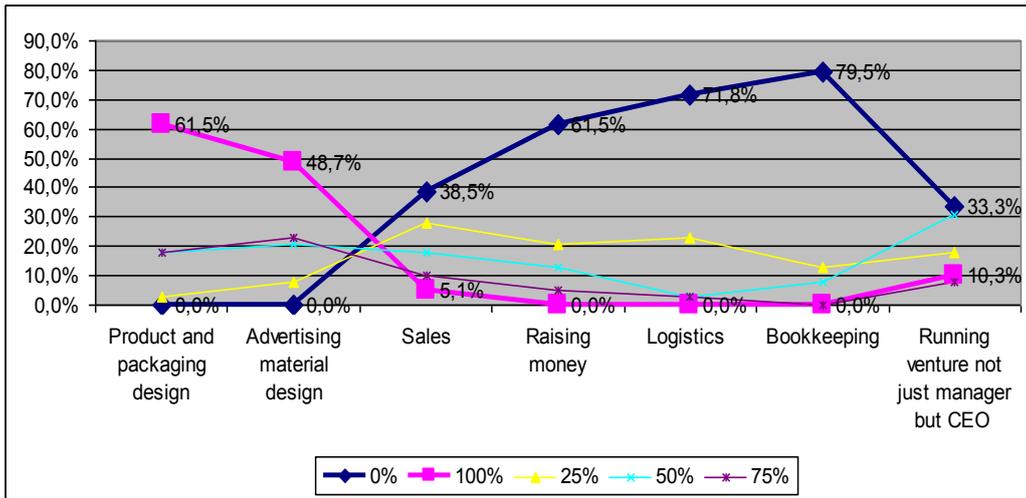


Majority of artists are reluctant to the business they show higher preferences to the creative expression related to the art but they are less willing to do businesses. Interpretation:

1. Non-entrepreneurs have quite positive perception to business.
2. Nascent and prospective entrepreneurs have more negative attitude to new venture creation due to the fact that they are experienced first difficulties with business creation.

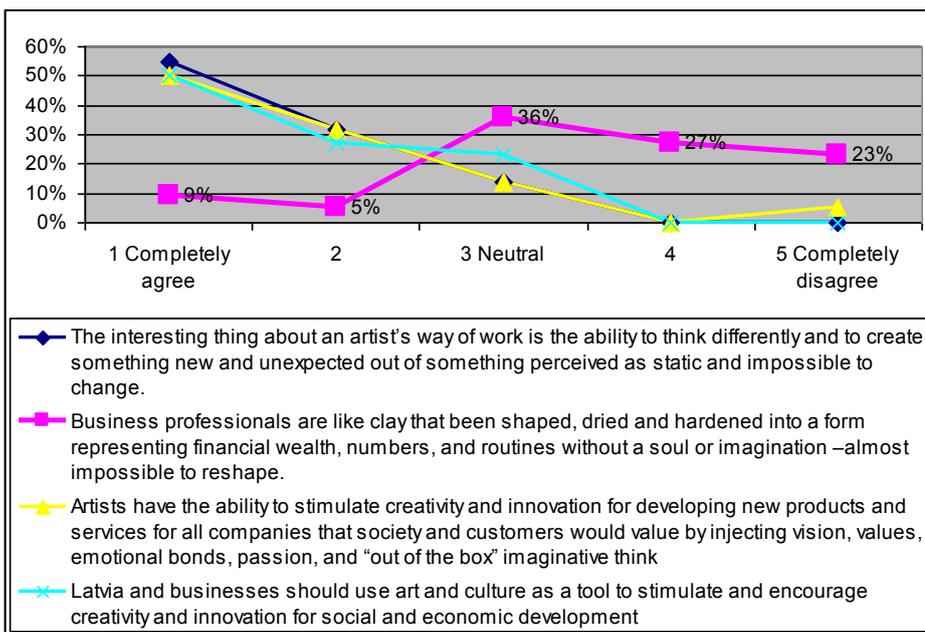
In general table confirms previous statement that artists are more likely to engage in creative art action rather business issues. But this table shows more detailed issues that artists very appreciate to do product and advertisement design but are reluctant rising money, logistics and bookkeeping. Very interesting issue is that they more or less appreciate sales which may be explained by student’s intentions to sell their current art works. Interpretation:

Figure 4.7. Desired activities in new venture of respondents



1. 100% of respondents highly appreciate and are willing to engage in product and packaging design and advertising material design.
2. Bookkeeping, logistic, raising money are those activities that artists completely do not want to do that confirms Hypothesis 3.
3. 10% of respondents are even willing to engage in venture running.
4. 5% are willing to do sales.

Figure 4.8. Attitude of respondents toward creativity in business



Artists believe that they may improve business operations and even can stimulate country development, at the same time they don't evaluate business professionals negatively. Interpretation:

- 80% of respondents agree that artists have a high impact to the creativity generation and that art should be used as a tool in governmental and business level.
- 49% of artists do not agree that business people are "soulless" and "inescapable".

## II. LIFE LONG LEARNING AND SKILLS DEVELOPMENT FOR SUSTAINABLE ENTREPRENEURIAL DEVELOPMENT

# **DOES TECHNOLOGY ENTREPRENEURSHIP EDUCATION PAY OFF? THE IMPACT ON ENTREPRENEURIAL ATTITUDES.**

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## **ABSTRACT**

**Objectives:** The aim of this paper is to analyze (1) the determinants of students' entrepreneurial intentions; and (2) to what extent following an entrepreneurship education program (EEP) may change these intentions.

**Theoretical Background/Previous Practice:** Entrepreneurial activity – exploiting new business opportunities – strongly differs between countries. However, the OECD stresses the importance of entrepreneurship for economic growth, productivity, innovation and employment. Furthermore, policy makers have recently proposed entrepreneurship as a key element in solving economic downturn. Figures on Belgium illustrate the country's low rate of entrepreneurial activity, despite the presence of a highly educated workforce and being a place of attraction for foreign businesses.

These observations imply that there is a strong need to stimulate entrepreneurship in Belgium on a larger scale. Among many solutions, higher education is key to stimulating entrepreneurship. Through specific entrepreneurship training and teaching programs, higher education may stimulate innovation and foster high-technology start-ups. In the long run, it may also change people's mindset and culture regarding entrepreneurship.

**Approach/Methods:** The aim of this paper is to analyze (1) the determinants of students' entrepreneurial intentions; and (2) to what extent following a program on entrepreneurship may change these intentions. Hypotheses are derived from Ajzen's theory of planned behaviour. Along the lines of this theory, we test whether a person's entrepreneurial intentions are determined by his attitude towards entrepreneurship, his perceived subjective norms (indicating a person's perceived social pressures to perform entrepreneurship), and his perceived behavioural control (indicating the perceived ease or difficulty of performing

behaviour towards entrepreneurship). We also test whether an EEP adds to a student's entrepreneurial intentions. Observations are gathered through surveys carried out among students from business and technology majors at the Vrije Universiteit Brussel.

**Results/Insights:** The results show that the more favourable a person's attitude towards entrepreneurship is, the higher his entrepreneurial intentions will be. In addition, following a technology entrepreneurship course adds to a student's entrepreneurial intentions by influencing the entrepreneurial attitudes.

**Implications:** The results of this research allow for a better design of EEPs by uncovering a clear relationship between the EEP and its impact on the student's entrepreneurial intentions and its determinants. For instance, after an introductory course, other courses should be designed so as to influence the subject's perceived subjective norms and perceived behavioural control. Furthermore, these results suggest the need for further exploring a country's elements of culture in order to understand and stimulate the forces behind entrepreneurship.

**Keywords:** entrepreneurship education; theory of planned behaviour; higher education.

## 1. INTRODUCTION

Entrepreneurial activity, in the sense of exploiting new business opportunities, strongly differs among countries. However, the OECD (2009) stresses the importance of entrepreneurship in stimulating economic growth, productivity, innovation and employment. In addition, policy makers have recently proposed entrepreneurship as a key element in solving economic recession. According to figures from the same study, Belgium shows a low rate of entrepreneurial activity, despite the presence of factors such as a highly educated workforce and being a place of attraction to foreign businesses. Although Belgium scores quite well on the ease of doing business, access to finance, and new-to-market product innovation, its entrepreneurial culture still shows a limited preference among its inhabitants for being self-employed.

These observations imply that there is a strong need to stimulate high-technology entrepreneurship in Belgium on a larger scale. Among various solutions, higher education is a key player in stimulating entrepreneurship, as the sector may create the basic conditions for entrepreneurial thinking and behaviour. Through specific entrepreneurship training and teaching programmes, higher education may add to innovation and foster high-tech start-ups. In the very long run, it may also change people's mindset and culture regarding entrepreneurship.

The research question addressed in this paper is formulated as follows: *What is the impact of technology entrepreneurship education on the entrepreneurial intentions of university students?* This paper therefore aims to analyze: (1) the determinants of students' entrepreneurial intentions; and (2) to what extent following a course on technology entrepreneurship changes these intentions. Hypotheses are derived from Ajzen's theory of planned behaviour (TPB) (Ajzen, 1991). Along the lines of this theory, we test whether a person's entrepreneurial intentions are determined by his attitude towards entrepreneurship, his perceived subjective norms (indicating a person's perceived social pressures to perform entrepreneurship) and his perceived behavioural control (indicating the perceived ease or

difficulty of performing behaviour towards entrepreneurship). Our study provides the first steps towards examining the effects of a new university programme, and may serve as a basis for more elaborate studies in a later stage.

The paper is organized as follows. Section 2 covers the role of entrepreneurship education programmes (EEP) in stimulating entrepreneurial intentions. Particular emphasis lies on the technology entrepreneurship (TE) course as a specific component of an EEP. Section 3 provides the literature review and hypotheses on the determinants of entrepreneurial intentions. Section 4 describes methodology, while section 5 discusses the results. The paper finally concludes with a discussion and policy implications.

## 2. THE ROLE OF ENTREPRENEURSHIP EDUCATION PROGRAMMES

### 2.1. Stimulating entrepreneurship education through an EEP

Entrepreneurship is a major policy priority in many industrialized regions, including the European Union. While the Global Entrepreneurship Monitor (GEM) Report (2012) indicates Belgium as an innovation-driven and internationally open country, figures on entrepreneurial activity (nascent and early-stage) show that Belgium consistently scores below the average figures of innovation-driven economies and its neighbouring countries (see Table 1). Of particular interest is the very low figure on nascent entrepreneurship, indicating a lack of entrepreneurial intentions (GEM Report, 2011). In addition, the country has a low share of university graduates among its entrepreneurs. On the other hand, the GEM-Report (2010) for Belgium, taking the long-term changing attitudes under the loop, shows an improved “spirit for entrepreneurship” (Lepoutre, Buysse and Crijns, 2011) indicating that policy and education are impacting people’s entrepreneurship behaviour.

| Country                                | Nascent Entrepreneurship Rate | New Business Ownership Rate | Early-Stage Entrepreneurial Activity (TEA) | Established Business Ownership Rate |
|--|-------------------------------|-----------------------------|--|-------------------------------------|
| Belgium                                | 2.7                           | 3.0                         | 5.7  | 6.8                                 |
| France                                 | 4.1                           | 1.7                         | 5.7  | 2.4                                 |
| Germany                                | 3.4                           | 2.4                         | 5.6  | 5.6                                 |
| Netherlands                            | 4.3                           | 4.1                         | 8.2  | 8.7                                 |
| United Kingdom                         | 4.7                           | 2.6                         | 7.3  | 7.2                                 |
| Average of Innovation Driven economies | 4.0                           | 3.0                         | 6.9  | 7.2                                 |

Table 1: Selected entrepreneurship statistics, innovation-driven economies. Adapted from the GEM Report (2011).

Equally, at the European level, innovative entrepreneurship has become a priority, which was already reflected in the EU Lisbon Strategy aiming to make the EU by 2010 ‘the most competitive and most dynamic knowledge-based economy in the world’ (Brussels European Council, 2009). One of the challenges regarding the Lisbon objectives was to resolve the innovation paradox. As Matti Vanhanen, former president of the European Council, stated prior to the Lahti Summit on ‘Growth from innovation’: “we are not innovation poor; we invest substantially in education, and spending on Research and Development is increasing,

yet that investment does not feed through into successful companies, new products and good jobs.”<sup>42</sup>

Universities play a crucial role in dealing with this paradox, not only by identifying and pursuing opportunities arising from academic research activities; but also by providing the appropriate higher education through teaching and seminar activities in both business and non-business studies. Through these activities, educators may identify and motivate potential entrepreneurs in the classroom; make them more confident about their skills and experience regarding entrepreneurship; and bring together potential and successful entrepreneurs. By adding to an individual’s personal perception of his ability to start up a company, these factors may facilitate the step towards nascent and early-stage entrepreneurial activity.

Very often, entrepreneurship programmes across higher education lack standardization (Myrah and Currie, 2006), while some programmes share the common feature of lacking academic rigour. Fayolle (2008) even questions whether entrepreneurship can be taught anyway. This objection is also brought up by the Expert Group of the European Commission on best practices in entrepreneurship education (European Commission, 2008). This group furthermore questions whether business schools are the most appropriate place to teach entrepreneurship as new creative, innovative and certainly technical ideas more likely arise within technical and scientific groups. Hence, a more inter-disciplinary approach towards entrepreneurship education is required. This has also been recognized at the Vrije Universiteit Brussel where the technology entrepreneurship programme, initially funded by the Flemish Government (50%) and industrial partners (50%), is part of the university’s Overall Strategic Plan 2007-2012 (with long-term continuity guaranteed). The TE programme offers education in high-technology entrepreneurship based on the following elements:

- making entrepreneurship accessible to as many majors as possible;
- allowing students to explore various technology domains, especially photonics, software, biotechnology, novel materials and microelectronics;
- bringing together students from both business and non-business majors, so as to create cross-fertilization of knowledge and skills across majors from the various faculty departments;
- offering tailor-made programmes and courses according to the different target groups;
- creating mixed teams for developing and working new business ideas through business development projects;
- engaging researchers from technological departments in the educational projects;
- using experience-based teaching methods;
- demystifying entrepreneurship through guest lectures by both academic scholars and experts with hands-on practical experience;
- assessing students through group presentations, written and oral examinations.

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<sup>42</sup> Prime Minister Matti Vanhanen’s views prior to the Lahti Summit: Growth and innovation”, 19 October 2006, <http://www.energy-environment.eu/index.php>.

The programme is also in line with the idea of Alberti et al. (2005) that, for effective entrepreneurship education to occur there should be a relationship between the goals of the entrepreneurship programme; the audiences to which the programme is delivered; the contents of the entrepreneurship courses or modules; the method of delivery or pedagogy; and finally the assessment that will be used<sup>43</sup>.

## *2.2. The Technology Entrepreneurship (TE) course as part of an EEP*

In this study, we refer to a Technology Entrepreneurship (TE) course as part of the entrepreneurship education programme (EEP) mentioned above.

The course is an introductory course scheduled in the 1<sup>st</sup> year Bachelor's programme of the various business and economics majors of the economics faculty department of the Vrije Universiteit Brussel. Students get introduced to technology, innovation and entrepreneurship as main drivers of the market economy. In a first module of lecture series, the course aims to cover the history of technology entrepreneurship and the mechanisms through which innovation spreads in society. Students, in addition, learn how to develop a strategy, and how finance, marketing, operations and other business fields contribute to attaining the objectives of the entrepreneurial firm. A second more seminar-type module finally covers the various technology domains that students will explore more in-depth later in the major: biotechnology and life sciences; micro-electronics and photonics; software; and novel materials. This seminar approach also creates room for dealing with the more human aspects of entrepreneurship such as leadership, team building and organization.

Considering the TE course as main aspect of a broader EEP should be seen as a first experiment that may be extended towards a larger-scale survey-based research in a later stage.

## **3. LITERATURE REVIEW AND HYPOTHESES**

### *3.1. Theoretical framework*

In the psychology literature, entrepreneurship is seen as career intention, which in turn has proven to be a good predictor for planned entrepreneurial behaviour, especially since this behaviour is rare, hard to observe, or is showing serious time lags with intentions (e.g., Krueger and Brazeal, 1994; Reynolds, 1994; Krueger et al., 2000). Hence, the underlying assumption is that an individual's intention affects his behaviour.

Scholars have developed several models to explain entrepreneurial intentions (see Fayolle et al., 2006 for an overview). For example, the model developed by Bird (1988) and later modified by Boyd and Vozikis (1994), primarily focuses on the implementation of entrepreneurial ideas. However, this model is of limited use for our study as (1) there is no clear-cut or close linkage between entrepreneurial ideas and intentions; and (2) the empirical

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<sup>43</sup> For a more detailed description of the programme and application to the biotechnology field, see Crispeels et al. (2009).

validity of the model is, to date, limited.

The two most widely used models explaining entrepreneurial intentions have received more empirical support: the Entrepreneurial Event Theory (SEE) (Shapero and Sokol, 1982) and the Theory of Planned Behaviour (TPB) (Ajzen, 1991), which is an extension of the theory of reasoned action (Ajzen and Fishbein, 1980). Both models have emerged in response to previous models that focused primarily on personality traits and demographic elements to differentiate between entrepreneurs and non-entrepreneurs, but which show methodological and conceptual limitations, as well as a lack of predictive capability (see Fini et al., 2009 for a discussion.).

Although Shapero's SEE and Ajzen's TPB each use specific terminology, they are similar by concept in that they refer to attitudes to explain entrepreneurial intentions and decision-making. Empirical testing of entrepreneurial intentions among students supports the strong linkage between intention and behaviour (e.g., Kolvereid, 1996a, b; Krueger et al., 2000). Krueger et al. (2000) in particular compare and test the two models, and conclude that both models are equally useful, offering an appropriate tool for understanding entrepreneurial intentions.

Fayolle et al. (2006) consider the SEE model as a particular case of the TPB in that the former focuses only on entrepreneurial event through the formation of new business creation, while the latter focuses on the entire process towards entrepreneurial intentions rather than on the entrepreneurial behaviour itself.

Given the similarity between both models and the fact that “the most important result of an entrepreneurship teaching programme is not necessarily the creation of start-ups, but could be among students’ mindset changes, attitude changes, and the development of an entrepreneurial orientation, measured through intentions.” (Fayolle et al., 2006), we analyze students’ intentions along the lines of the TPB.

This study thus addresses the following research question: *Does a technology entrepreneurship course at a Belgian university affect the students’ attitudes and entrepreneurial intentions?* Any empirical support to this relationship may add to the idea that education may stimulate students’ mindsets towards entrepreneurship.

In this study, choosing the TPB to explain entrepreneurial intentions is particularly useful for two reasons:

- the TPB refers to a person’s attitude, subjective norms and perceived behavioural control to predict his/her entrepreneurial intentions. Along these lines, our study indicates entrepreneurial intentions as being the result of those three factors while at the same time being the facilitator between these predictors and entrepreneurship behaviour (e.g., Krueger and Carsrud, 93; Krueger and Brazeal, 94);
- the TPB allows for extensions by indicating various exogenous factors influencing attitude, subjective norms and perceived behavioural control, all three being predictors of entrepreneurial intentions. The purpose of our study, i.e., to analyze the process and development of entrepreneurial intentions through a specific academic

course programme, fits within the approach of the extended model.

### 3.2. Hypotheses

#### 3.2.1. *The influence of attitude, subjective norms and perceived behavioural control on entrepreneurial intentions*

Applied to entrepreneurship, Ajzen's theory of planned behaviour (Ajzen, 1991) states that attitude towards entrepreneurship, subjective norms and perceived behavioural control (often referred to collectively as attitudes) predict intentions, while intentions and perceived behavioural control predict entrepreneurship behaviour.

A high attitude towards entrepreneurship indicates that the respondent has a high desirability of performing entrepreneurship behaviour. Subjective norms indicate the respondent's perception of important people's (such as family's and friends') opinions regarding entrepreneurship<sup>44</sup>. Perceived behavioural control refers to a person's ease or difficulty of changing or performing a certain behavior, in this case towards entrepreneurship (Ajzen, 1991, 2002), and indicates in a way the extent to which the person has control over the (entrepreneurial) behaviour. Krueger and Dickson (1994) for example have shown that an increase of perceived behavioural control (and thus of free choosing) increases an individual's perception of opportunity. Hence, given a sufficient degree of actual control over the behavior, people are expected to carry out their intentions when the opportunity arises (Ajzen, 2002).

Many studies confirm the major role of the three attitude elements in explaining intentions. According to Fini et al. (2009), entrepreneurial intention is predicted by attitude and perceived behavioural control, while it is not predicted in a statistically significant way by subjective norm. Souitaris et al. (2007) found that intentions among science and engineering students were significantly influenced by the three variables at two moments: at the time of entering the programme, and at the end of the programme. The major role played by attitude in particular is confirmed by many other studies such as Kautonen et al. (2009), Moriano et al. (2011), do Paço et al. (2011) and Van Gelderen et al. (2008).

More mixed results have been found on the relationship between subjective norm and intentions. Moriano et al. (2011), Van Gelderen et al. (2008), Kautonen et al. (2009), and Carr and Sequeira (2007) all confirm that subjective norm was important in explaining entrepreneurial intentions. On the contrary, Armitage and Conner, (2001), Fini et al. (2009), Shook and Bratianu (2010), do Paço et al. (2011), and Sommer and Haug (2011) all assert that subjective norm played a rather weak role in explaining entrepreneurial intention (see Koe et al., 2012, for a more extensive discussion on the recent empirical contributions).

Less conflicting results were found on the relationship between perceived behavioural control (PBC) and intentions. Some studies even indicated the factor as the strongest predictor of intentions (Shook and Bratianu, 2010; Moriano et al., 2011; Fini et al., 2009; do Paço et al., 2011).

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<sup>44</sup> While a variety of synonyms and related terms appear in the literature, we use in this paper the original term of 'subjective norm' as developed in Ajzen's TPB.

Accordingly, we suggest the following hypotheses:

*Hypothesis 1: A more favourable attitude towards entrepreneurship enhances a student's entrepreneurial intentions.*

*Hypothesis 2: A more favourable perception of subjective norms towards entrepreneurship enhances a student's entrepreneurial intentions.*

*Hypothesis 3: A higher perceived behavioral control with respect to entrepreneurship enhances a student's entrepreneurial intentions.*

### *3.2.2. The effect of entrepreneurship programmes on attitudes and intentions*

Since the early 1990s, several researchers have developed great interest in the linkage between entrepreneurship education, entrepreneurial intentions and the predictors of intentions. The underlying idea is that, in accordance with the theory of planned behaviour, entrepreneurship education programmes may change a student's attitude towards entrepreneurship and in the end his intentions towards entrepreneurship. Although some of the studies only show little empirical evidence for this idea (e.g., Robinson et al., 1991; Krueger and Brazeal, 1994), several, more recent, studies (e.g., Peterman and Kennedy, 2003; Fayolle et al., 2006; and Souitaris et al., 2007) show that entrepreneurship programmes raise some attitudes and entrepreneurial intentions. However, the results differ in terms of the exact category of attitude. Therefore, it is worth further exploring the empirical relevance of the educational dimension of the theory of planned behaviour. This need is also motivated by the growing importance of entrepreneurship educational programmes at universities and colleges worldwide. Fayolle et al. (2006) rightly responded to this evolution by developing a common framework to evaluate the design of those programmes. Their empirical testing showed that programmes, containing the right objectives, etc., may increase students' awareness and attitudes towards entrepreneurship.

This leads to the formulation of the following hypothesis:

*Hypothesis 4: After taking a TE course, students will have a higher attitude, subjective norms, perceived behavioural control and intention towards entrepreneurship than before taking the TE course.*

Having two groups of students of which only one received the technology entrepreneurship course allows for comparing the evolution in the mentioned attitude factors over the studied period. This allows for isolating the effect of the TE course and leads to the following hypothesis:

*Hypothesis 5: The change in attitude, subjective norms, perceived behavioural control and intentions with students that took the TE course is significantly different from the change of these attitude factors with students not taking the TE course.*

### *3.2.3. Additional exogenous elements affecting attitudes*

In a last step, we test whether in addition to having taken the TE course, other exogenous factors such as gender and a person's risk-taking propensity impact the predictors of entrepreneurial intention as identified by Ajzen's TPB.

Several studies found that women have lower entrepreneurial intentions than men. Drawing upon an elaboration of the TPB, Yordanova and Tarrazon (2010) indeed confirm that women from Bulgarian universities show less favourable attitudes, less supportive subjective norms and lower perceived behavioural control about entrepreneurship. Hence, the gender effect on entrepreneurial intentions is fully or partially mediated through the three elements of attitudes. Leroy et al. (2009) found similar results for data on students from Flemish universities, except for subjective norms that did not explain gender differences in behaviour.

Some studies also propose a direct impact of personality traits on entrepreneurial intentions. One of the traits is a person's risk-taking propensity. The basic idea is that a person's characteristics indirectly influence the intention to become an entrepreneur through their effect on attitude and perceived behavioural control. Lüthje and Franke (2003) found empirical support for this proposition, hence indicating the importance for public policy makers and educators to focus entrepreneurship programmes on the right students, especially those with a high risk-taking propensity.

Based on these arguments we propose two additional hypotheses:

*Hypothesis 6a: Male students tend to show more favourable attitudes, more supportive subjective norms and higher perceived behavioural control about entrepreneurship than female students.*

*Hypothesis 6b: Students having a higher risk-taking propensity show a more favourable attitude towards entrepreneurship and perceived behavioural control, and have higher entrepreneurial intentions.*

## **4. DATA AND METHODOLOGY**

### *4.1. Questionnaire and sample*

In order to test the model, we use a questionnaire based on the one originally developed by Kolvereid (1996b) and which was extensively validated (e.g. Fayolle et al., 2006; Krueger et al., 2000; Souitaris et al., 2007; Van Gelderen et al., 2008). Measurement instruments translated into Dutch exist (Van Gelderen et al., 2008; Leroy and Meuleman, 2008). We use an adapted version of the questionnaire developed by Leroy and Meuleman (2008). Regarding the perceived personal risk-taking propensity, we adopt a scale from Bruner et al. (2001).

The entrepreneurship programme in this study is referred to as a course, in particular a Technology Entrepreneurship (TE) course having characteristics as discussed under section 2.2 of this paper.

The survey was completed in May 2011 with an audience of 1<sup>st</sup> year students from various

economics majors at the Vrije Universiteit Brussel, while they were attending the General Economics class. The total group included both students who took the Technology Entrepreneurship (TE) course and students who did not take the TE course.

Students received a hard-copy questionnaire containing questions on the following subjects:

- entrepreneurship intentions;
- attitudes towards entrepreneurship;
- subjective norms towards entrepreneurship;
- perceived behavioural control towards entrepreneurship;
- risk-taking propensity;
- gender;
- (not) having taken the TE course.

Except for the questions on gender and (not) having taken the TE course, that are labelled as a 0/1 dummy, students were asked to rate on a Likert scale (1 to 7) to what extent they agree or disagree with the statements on the various subjects (Table 2). Per subject, the answers to the multiple questions are converted into a composite score. In order to test the effect of a TE course on attitudes, two time frames need to be considered. Therefore, students had to answer the questions on intentions and the three elements of attitudes according to how they felt about the statement after having taken the course ( $t_2$ ) and how they felt about it when they were about to start taking the course ( $t_1$ ).

This retrospective pre-test post-test design is required to assess the difference in scores between two moments in time, namely after having taken the TE course ( $t_2$ ) and before taking the TE course ( $t_1$ ). The approach implies that one single survey, distributed at moment  $t_2$ , examines respondents' perceptions on various subjects at moment  $t_1$  and  $t_2$ . Compared to prospective tests, the retrospective pre-test used in self-report measurement instruments minimizes the response-shift bias and is therefore the preferred measurement instrument for evaluating the individual's perceived change (Drennan and Hyde, 2008; Hill and Betz, 2005; Pratt et al., 2000; Rohs, 1999).

We also asked students who did not take the TE course, but for the rest followed an identical course programme, to fill out the questionnaire. In this way a control group exists, allowing for further testing. Questionnaires filled in by participants (previously) engaged in entrepreneurial activities were eliminated.

Of the 148 questionnaires completed, 142 responses are included in the sample. Within the sample, 82 (=57.7%) students took the TE course, while 60 (=43.3%) did not. The overall response rate was 69.5%, which is, not surprisingly, a high rate as the survey was carried out during a class with high attendance. Furthermore, since the survey was carried out at the end of the academic year, a large portion of the missing students are probably drop-outs.

The sample population consists of 49 (= 34.5%) women and 93 (=65.5%) men. The respondent's average age is 18.9 years (std. dev. = 0.9).

Items are (re-)scaled such that a higher score corresponds to a higher intention, attitude, subjective norms, and perceived behavioural control. An overview of the measures, variables and scales is presented in Table 2.

| Measure                       | Name of variable | Type of variable   | Number of items | Scale format of separate items |
|-------------------------------|------------------|--------------------|-----------------|--------------------------------|
| Gender (male/female)          | Gender           | Dummy variable     | /               | 0/1 variable                   |
| (Not) having taken TE         | TechEntr         | Dummy variable     | /               | 0/1 variable                   |
| Risk-taking propensity        | Risk             | Composite variable | 4               | 1 to 7 Likert-scale            |
| Entrepreneurial intention     | Intention        | Composite variable | 4               | 1 to 7 Likert-scale            |
| Attitude                      | Attitude         | Composite variable | 4               | 1 to 7 Likert-scale            |
| Subjective norms              | SubjNorms        | Composite variable | 6               | 1 to 7 Likert-scale            |
| Perceived behavioural control | PBCControl       | Composite variable | 7               | 1 to 7 Likert-scale            |

*Table 2: Measures, variables and scale formats.*

#### 4.2. Methodology

To test our hypotheses, we employ three tests (Salvatore and Reagle, 2002):

- (1) To test hypotheses 1, 2 and 3, regression analysis was applied to test Ajzen's theory of planned behaviour, in particular the impact of (in our survey, a student's) attitude, subjective norms, and perceived behavioural control on his/her entrepreneurial intentions. For this regression, we processed the answers at moment  $t_1$  only, while a second regression covering the answers at moment  $t_2$  may be carried out in later stage. The regression considered both TE and non-TE students, so as to allow for more variation in explaining entrepreneurship intentions.
- (2) In order to test hypothesis 4, a paired-sample t-test measured the impact of the TE course on intentions, attitude, subjective norms and perceived behavioural control. Technically, the test checks whether responses on the 4 variables differed significantly at moment  $t_1$  and  $t_2$ . Finally, in order to test hypothesis 5, an independent t-test verified if the response shift differed significantly between students who took the TE course and students who did not.
- (3) Correlation analysis tested the relationship between gender, perceived risk, taking TE or not, attitude, subjective norms, perceived behavioural control and intentions at moment  $t_1$  (before taking TE). In a later stage, this third test, addressed to hypotheses 6a and 6b, could go beyond correlation analysis by also examining the causal relationship between gender, perceived risk and the various predictors of entrepreneurship intentions.

## 5. FINDINGS

The results from the regression model of the three attitude variables upon intentions before students took the TE course (Table 3) confirm the expected influence of attitude towards

entrepreneurship, subjective norms and perceived behavioural control on entrepreneurship intentions (with all  $p < 0.05$ , and  $R^2 = 0.57$ ). As a result, hypotheses 1, 2, and 3 are accepted.

|                    | Beta coefficient<br>(standardized) | t      | Significance |
|--------------------|------------------------------------|--------|--------------|
|                    |                                    | -0.416 | 0.678        |
| Attitude( $t_1$ )  | 0.747                              | 11.770 | 0.000**      |
| SubjNorms( $t_1$ ) | -0.136                             | -2.136 | 0.035*       |
| PBControl( $t_1$ ) | 0.159                              | 2.606  | 0.010*       |

Table 3: Regression model before taking the TE course ( $t_1$ ) – results <sup>a</sup>

<sup>a</sup> Dependent variable: Intentions( $t_1$ )

Note: \* and \*\* significance resp. at 0.05 and 0.001.

|                         |       |
|-------------------------|-------|
| Adjusted R <sup>2</sup> | 56.5% |
| F                       | 55.54 |
| N                       | 127   |

Table 4: Regression model summary

The paired-sample t-tests shows that we can accept hypothesis 4 that students have significant pre- and post-programme differences in intentions, attitudes and perceived behavioural control (all at  $p < 0.001$ ) (Table 5). Interestingly, the test does not show a significant increase in subjective norms after students took the TE-course, which is in line with other research findings on the subject.

|  | Paired differences |                    | Degrees of freedom | t      | Significance (2-tailed) |
|--|--------------------|--------------------|--------------------|--------|-------------------------|
|  | Mean               | Standard Deviation |                    |        |                         |
| Pair 1<br>Intention( $t_2$ )<br>- Intention( $t_1$ ) | 0.774              | 1.199              | 81                 | 5.848  | 0.000**                 |
| Pair 2<br>Attitude( $t_2$ )<br>- Attitude( $t_1$ )   | 0.302              | 0.643              | 80                 | 4.233  | 0.000**                 |
| Pair 3<br>SubjNorms( $t_2$ )<br>- SubjNorms( $t_1$ ) | -0.006             | 0.339              | 76                 | -0.168 | 0.867                   |
| Pair 4<br>PBControl( $t_2$ )<br>- PBControl( $t_1$ ) | 0.734              | 1.031              | 77                 | 6.289  | 0.000**                 |

Table 5: Paired sample test on response shift between  $t_1$  and  $t_2$  (Students who took the TE course)

Note: \* and \*\* significance resp. at 0.05 and 0.001.

The tests on the control sample of students who did not take the TE-course (Table 6) shows

only a significant difference between the pre- en post-TE-course means for intentions and perceived behavioural control, yet not for attitude and subjective norms.

|   | Paired differences |                    |                    |       |                         |
|---|--------------------|--------------------|--------------------|-------|-------------------------|
|   | Mean               | Standard Deviation | Degrees of freedom | t     | Significance (2-tailed) |
| Pair 1<br>Intention(t <sub>2</sub> )<br>-Intention(t <sub>1</sub> )     | 0.529              | 1.532              | 59                 | 2.675 | 0.010*                  |
| Pair 2<br>Attitude(t <sub>2</sub> )<br>- Attitude(t <sub>1</sub> )      | 0.046              | 0.989              | 59                 | 0.359 | 0.721                   |
| Pair 3<br>SubjNorms(t <sub>2</sub> )<br>-<br>SubjNorms(t <sub>1</sub> ) | 0.161              | 0.520              | 55                 | 2.316 | 0.024*                  |
| Pair 4<br>PBControl(t <sub>2</sub> )<br>-PBControl(t <sub>1</sub> )     | 0.642              | 1.036              | 58                 | 4.759 | 0.000**                 |

Table 6: Paired sample test on response shift between  $t_1$  and  $t_2$  (Students who did not take the TE course)

Note: \* and \*\* significance resp. at 0.05 and 0.001.

In summary, participation to the course TE leads to (1) a significant (positive) change in entrepreneurial attitude (something we do not observe in the control group); (2) no significant change in subjective norms (no difference with the control group); (3) a significant positive effect on entrepreneurial intentions; and (4) a significant positive effect on Perceived Behavioral Control. The latter two are also observed in the control group.

This comparison, however, has not provided any information on the relative magnitude of the impact of the programme on the variables. For instance, we notice a significant change in both groups with regards to Entrepreneurial Intentions. In the control group, Entrepreneurial Intentions increase by 0.529 points on a 7 point Likert scale. For the TE-students, the average increase is 0.774 points. The question now is whether this difference is significant. In other words, is the increase in entrepreneurial intentions in the TE-group significantly larger than the increase in intentions in the control group?

In order to test this, we use an independent sample t-test for equality of means. The results are presented in Table 7. Using a Levene's Test for Equality of Variances, both groups of students show an equality of variance for all variables (sig. > 0.05), except for Subjective Norms.

|           |                             | Levene's Test for Equality of Variances |       | t-test for Equality of Means |        |                 |  |
|-----------|-----------------------------|---|-------|------------------------------|--------|-----------------|--|
|           |                             | F                                       | Sig.  | t                            | df     | Sig. (2-tailed) |  |
| Intention | Equal variances assumed     | 0.014                                   | .906  | -1.070                       | 140    | 0.287           |  |
| Attitude  | Equal variances assumed     | 0.415                                   | .520  | -1.864                       | 139    | 0.064*          |  |
| SubjNorms | Equal variances not assumed | 7.582                                   | .007  | 2.105                        | 88.287 | 0.038**         |  |
| PBControl | Equal variances assumed     | 0.142                                   | 0.707 | -0.520                       | 135    | 0.604           |  |

Table 7: Independent samples test

Note: \* and \*\* significance resp. at 0.1 and 0.05.

The results show that following a TE course, compared to the control group, shows significant differences in impacting attitude and subjective norms. Most interesting, this means that the positive change in entrepreneurial attitudes achieved by the TE course (+0.774) differs significantly from the 'natural' change occurring in the control group (+0.046).

The results from correlation analysis (Table 7) do not support hypothesis 5a that male students tend to show more favourable attitudes, more supportive subjective norms and higher perceived behavioural control about entrepreneurship than female students. However, it is worth mentioning that males have a higher risk-taking propensity towards entrepreneurship ( $r=0.274$ ,  $p<0.001$ ).

The results confirm hypothesis 5b that students with a higher risk-taking propensity show a more favourable attitude towards entrepreneurship ( $r=0.198$ ,  $p<0.05$ ) and perceived behavioural control ( $r=0.192$ ,  $p<0.05$ ). A higher risk-taking propensity is also positively correlated with intentions ( $r=0.260$ ,  $p<0.001$ ). Not surprisingly, risk-taking propensity is not correlated with subjective norms.

|          | Gender | TechEnt | Risk | Intention | Attitude | SubjNorms | PercBehControl |
|----------|--------|---------|------|-----------|----------|-----------|----------------|
| Gender   | 1      |         |      |           |          |           |                |
| TechEntr | 0.309* | 1       |      |           |          |           |                |

|           |        |        |        |         |        |         |   |
|-----------|--------|--------|--------|---------|--------|---------|---|
| Risk      | 0.274* | 0.033  | 1      |         |        |         |   |
| Intention | -0.007 | -0.02  | 0.260* | 1       |        |         |   |
| Attitude  | 0.016  | -0.027 | 0.198* | 0.726** | 1      |         |   |
| SubjNorm  | -0.130 | 0.060  | 0.023  | 0.184*  | 0.329  | 1       |   |
| PBControl | 0.065  | -0.085 | 0.192* | 0.342** | 0.243* | 0.231** | 1 |

Table 7: Pearson correlations for total sample (N=142), before students took the TE-course. Note: \* and \*\* significance resp. at 0.05 and 0.001.

## 6. CONCLUSIONS AND POLICY IMPLICATIONS

Technology entrepreneurship plays an important role in creating sustainable economic growth in innovation-driven economies. Higher education has the important role of training future entrepreneurs, which has resulted in frantic entrepreneurship education initiatives. This paper evaluates the impact of an introductory course in Technology Entrepreneurship with business students. The study set-up allows for comparing the impact of the course on relevant attitude variables with the naturally occurring evolution of these attitudes with first-generation students.

In a first step, a regression analysis confirms the applied TPB, since it is shown that a more favourable attitude, more favourable perception of subjective norms and a higher perceived behavioural control towards entrepreneurship enhance a student's entrepreneurial intentions. At first sight, following a TE course enhances entrepreneurial intentions, attitudes and perceived behavioural control. No proof is found that taking a TE course enhances the perception of subjective norms. However, similar evolutions in a number of attitude variables are observed within a group of similar students that did not take the TE course. Further testing reveals that the real impact of taking a TE course is on the variable entrepreneurial attitude. This supports the view that entrepreneurship education should be more than one theoretical course and that a longitudinal, sustainable approach towards entrepreneurship education is necessary within a higher education institute. The programme studied is therefore built on a three-step approach in which TE is just the first step. Applied (interactive) courses and practical business development projects follow during the rest of the educational programme. In order to fully grasp the impact of the programme, the methodology used in this paper should be applied to a cohort of students finishing their studies at the Vrije Universiteit Brussel.

The results of this research allow for a better design of EEPs by uncovering a clear relationship between an introductory technology entrepreneurship course and its impact on a student's entrepreneurial intentions and their determinants. After this introductory course, other courses should be designed so as to influence the individual's perceived subjective norms and perceived behavioural control. Furthermore, these results suggest the need for further exploring a country's elements of culture in order to understand and stimulate the forces behind entrepreneurship. Finally, the results may assist policy makers in developing

the appropriate instruments to re-think education in a more innovative and sustainable way. For, if a country aims to improve its competitive advantage, it should consider education and entrepreneurship as two sides of one coin.

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## **ENTREPRENEURSHIP EDUCATION AND INTENTION TO CREATE VENTURE AMONG COLLEGES OF EDUCATION STUDENTS IN NIGERIA**

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### **Abstract**

This paper aims at assessing the impact of entrepreneurship courses, newly introduced to all Colleges of Education as a general course for all students, on entrepreneurial intention among Colleges of Education students in Nigeria. Theory of planned behaviour as a model of predicting the entrepreneurial intention. Intention models offer a significant opportunity toward this experimentation. We apply this model to experiment with a sample of 284 students of Colleges of Education in the Osun State of Nigeria. This study uses the theory of planned behaviour which is an intention model to study the entrepreneurial intentions (Ajzen, 2001). The theory of Planned Behaviour, with the premise that much human behaviour is planned and is, therefore, preceded by intention toward that behaviour. The model stresses that three key attitudes predict intention: attitude, subjective norms and perceived behavioural control.

This study population consists of students at Colleges of Education in the study area before and after offering of the entrepreneurship course. Two hundred and eighty-four (284) students from two colleges of education in the state were randomly selected for the study using an adapted questionnaire titled “entrepreneurial intention questionnaire based on the theory of planned behaviour approach as instrument. Reliability coefficient of the instrument was tested using statistical tool of alpha cronbach. Data collected were analyzed using both descriptive statistics and inferential statistics such as mean, correlation analysis and regression analysis with the aid of SPSS 17.0 software.

The findings provide strong support for this theoretical model, before and after the course, as the entrepreneurial intention, subjective norms and perceived behavioural control are significantly correlated. Entrepreneurial intention was predicted significantly by subjective

norms and perceived behavioural control. However, personal attitudes were found to be both non-correlated and non-significant in predicting entrepreneurial intention. Also, the results show that the entrepreneurship course offered by the students has significantly raised the intention from 17.1% to 68.6%. The introduction of entrepreneurship as a general course is a step in right direction towards self-reliance economy.

The paper therefore, suggests that practical exposure to real life experience be integrated into the teaching. This will aid turning intention to reality. Entrepreneurship centre that will provide opportunities for students to have access to a large body of talented and skilled individuals, business practitioners and other professionals should be established. Regular symposia, seminars, attachments and workshops should be facilitated to bridge the gap between potential entrepreneurs and entrepreneurship support organizations, such as incubators, business agencies and practicing entrepreneurs.

**Keywords:** College of Education, Entrepreneurial Intention, Nigeria, Theory of Planned Behaviour.

### **Introduction:**

At present, the prospects for new entrants to the teaching profession are not favourable. Unemployment, underemployment, cheap labour and unsuccessful job applications characterized Nigerian labour market especially the teaching profession. The public sector through the teaching service commission is no longer able to provide jobs to the increasing number of unemployed trained teachers in Nigeria. As a result of less jobs being available to economically active persons in Nigeria, the private sector through the private schools established by individual or corporate bodies resulted into cheap labour employment of trained teachers. It is obvious that there are not enough existing jobs to absorb the annual influx of trained teachers into the labour market. Mare (1996) maintains that school leavers have to become more self-supporting. He further suggests that school leavers, when deciding on a career should consider self-employment as they can no longer rely on the private or public sector to meet their career needs.

The entrepreneurship education has been discovered as playing an important role in developing entrepreneurial skills and shaping attitudes towards entrepreneurship (Horn, 2006). Mare (1996) observes that school learners will have to be exposed to an entrepreneurship curriculum that will assist them to develop entrepreneurial skills and knowledge. The importance of entrepreneurial activity for the economic growth of countries is now well established. The links between education and venture creation has been established in relevant literature likewise the importance of entrepreneurial education to entrepreneurial performance and entrepreneurial activity has been entrenched in the literature. Nigeria government has introduced some entrepreneurship programmes in the past especially as from late 80s. These programmes include “Work-For-Your-Self programmes’ between 1987 and 1991; the Start-and-Improve-Your-Business programme introduced in 1994 and the Work-Improvement-for-Small-Enterprise (WISE) programme in 1997. However, all these efforts could not yield the desired fruit because these trainings were grossly inadequate to provide the required entrepreneurial training for the general millions of unemployed youths. The

introduction of entrepreneurship education into the Nigerian educational system becomes highly imperative. Universities and Polytechnics in Nigeria have started to offer entrepreneurship as a course but in Colleges of Education it was limited to Business Education programme. The recent curriculum introduced in 2009 made entrepreneurship as a course compulsory for all college students. The inclusion of entrepreneurial education as a general studies in Nigeria Colleges of Education curriculum is an effort towards creating an intention to venture creation among the College students. Izedomi and Okafor (2010) study make it clear that Nigerian university students' exposure to entrepreneurship education is capable of provoking the intention of becoming entrepreneurs. The primary purpose of this paper is to assess the impact of this newly introduced entrepreneurship education on intention of the colleges of education students to create ventures as this will enhance policy formulation on Skills Development for Sustainable Entrepreneurial Development. The theory of Planned Behaviour model will be used in determination of entrepreneurship intention among these students. Although, the results of such entrepreneurial education on actual ventures creation may not be immediate, however, its effect on intention creation is likely to be.

### **Entrepreneurship Education**

The Consortium for Entrepreneurship Education (2008) states that entrepreneurship education is not just about teaching someone to run a business, it is also about encouraging creative thinking and promoting a strong sense of self-worth and empowerment. Through entrepreneurship education, students learn how to create business, but they also learn a lot more. The core knowledge created via entrepreneurship education includes: the ability to recognize opportunities in one's life, pursue opportunities, by generating new ideas and found the needed recourses, create and operate a new firm and think in a creative and critical manner.

Entrepreneurship education, beside imparting knowledge and skill, is mainly about the development of certain beliefs, values and attitudes, with the aim to get students to really consider entrepreneurship as an attractive and valid alternative to paid-employment or unemployment (Holmgren et al., 2004; Sánchez, 2010; Raposo et al.; 2008; Raposo and Paço 2011).

The intention to be self-employed may be formed by a 'trigger event' (Shapiro and Sokol, 1982) that changes an individual's situation or future plans. Mcstay (2008) observed that it is possible that participation in entrepreneurship education be considered a 'trigger event' towards self-employment intentions.

The significance of education and the part it plays in entrepreneurial activity has been acknowledged by Matthews *et al* (1995), Shay and Wood (2004) maintain that the education system plays an important role in developing entrepreneurial skills and shaping entrepreneurship attitudes. Thus, higher education provides the skills required for the formation of firms within these knowledge-based industries (Fletcher, 1999; Henderson and Robertson 2000; Postigo, Lacobucci, and Tamborini, 2006). Carter *et al* (1999) and Gibb (1996) agreed with the importance of education to entrepreneurship, believing that ambitious, educated, young people can be equally encouraged into new venture creation as opposed to a

large organisation, especially as the long-term supply of well-educated and qualified entrepreneurs is essential to a strong modern society (Scott *et al*, 1988).

The correlation between education and entrepreneurship was substantiated by Brooksbank and Jones-Evans (2005) who also found entrepreneurship higher amongst graduates than non-graduates, thus helping to dispel the ‘myth’ there is no link between educational achievement and entrepreneurial activity. Fitzsimons *et al* (2007), also, found a direct correlation between education and entrepreneurship finding entrepreneurial activity highest amongst those with a third level qualification. In Nigeria, scholars have identified education and training as one of key factors that influences young people’s aspirations toward entrepreneurship and they advocate the need to understand the predictors of entrepreneurial intention in order to better nurture potential entrepreneurs during their university years. (Adenipekun, 2004; Uwameiye and Uwameiye, 2006; Meittinen, 2006).

### **Concept of Entrepreneurial Intention**

Entrepreneurial intention deals with the inclination of a person to start an entrepreneurial activity in the future (Davidson, 1995). It is a major determinant of the action of new venture creation. Previous studies have shown that entrepreneurial intentions are central to understanding the entrepreneurship process due to the fact that they form the underpinnings of new establishments. Entrepreneurial intention is an important first step in the entrepreneurship process. In social psychology, intention is considered as the most immediate and important antecedent of behavior. Intention is then a strong predictor of entrepreneurial activity. Entrepreneurial intention is one’s willingness in undertaking entrepreneurial activity. According to Izedonmi and Okafor (2010) intentionality therefore acts as a force that propels entrepreneurial actions and behavior. It gives direction to someone’s attention and determines experience one gets in life (Krueger, 2005).

Understanding factors related to entrepreneurial intention is pivotal to skills development for Sustainable Entrepreneurial Development since intentions are reliable predictors of entrepreneurial action. The relationship between intention and action is explained by Ajzen social psychological theory of planned behavior (Ajzen, 1991). This model seems to be the most comprehensive of all these models of action. In this model, intentions are pivotal as key predictors of behavior and mediators of attitudes towards the commencement of a business, subjective norms and perceived self-efficacy.

Entrepreneurial intention is an important first step in the entrepreneurship process. In social psychology, intention is considered as the most immediate and important antecedent of behavior. Intention is then a strong predictor of entrepreneurial activity. Entrepreneurial intention is one’s willingness in undertaking entrepreneurial activity, or in other words become self-employed.

Entrepreneurial intention is a major determinant of the action of new venture creation moderated by exogenous variables such as education and training (Bird and Jelinek, 1988). The driving force to become an entrepreneur may be plausibly considered as voluntary and conscious (Krueger *et al*, 2000). Therefore, it seems imperative to examine how decision is taken. There are several reasons why individual chooses to be self-employed, these include

desire to have economic freedom, desire to be autonomy, desire to exert authority and Self-actualization.

### **Theoretical Framework**

Ajzen(1991) defined the theory of Planned Behaviour with the premise that much human behavior is planned and is therefore preceded by intention toward that behavior. The theory assumes intention as the immediate antecedent of behaviour. Consequently, the theory stresses that three key attitudes predict intention: attitude towards the act, subjective norm and perception of the behavioural control. Scholten, et al. (2004) consequently explained the three key variables as predictor of the intention towards entrepreneurship.

#### **Personal Attitude**

This attitude is based on the perception of the person of what he/she might think of as a desirable outcome. If someone expects that the outcome of the act is getting him or her in a better position, it will be more likely that he/she will perform the act. Attitude toward entrepreneurship, then, includes beliefs about the likely outcomes of starting a new company and the evaluations of these outcomes. Personal Attitude *refers* to the degree to which the individual holds a positive or negative personal valuation about being an entrepreneur (Ajzen 2001; Autio et al. 2001; Kolvereid, 1996b). It includes not only affective (I like it, it is attractive), but also evaluative considerations (it has advantages).

#### **Subjective Norm**

The subjective norm reflects the extra personal influence on the decision-maker. If the people that are close to the individuals expect or respect that he/she will do the act, it is more likely he/she will do so. This measures the perceived social pressure to carry out—or not to carry out entrepreneurial behaviours. In particular, it would refer to the perception that “reference people” would approve of the decision to become an entrepreneur, or not (Ajzen, 2001). Image of entrepreneurship is the subjective norm that includes beliefs about the normative expectations of others and motivation to comply with these expectations.

#### **Perceived Behaviourial Control**

This is the extent to which someone perceives the act as feasible. Perceived behavioural control (PBC) is, therefore, defined as the perception of the ease or difficulty of becoming an entrepreneur. It refers to the sense of capacity regarding the fulfilment of firm-creation behaviours. PBC would include not only the feeling of being able, but also the perception about controllability of the behaviour, beliefs about the greater the perceived control, the stronger the person’s intention toward entrepreneurship is expected to be.

As a rule, the more favourable the attitude and subjective norm, the greater the perceived control, the stronger the person’s intention toward entrepreneurship is expected to be.

### **The Methodology and Model**

The research design used was a descriptive design. An adapted Questionnaire titled “Entrepreneurial Intention Questionnaire (EIQ) based on the theory of planned behaviour approach as instrument was used for the study. Four hundred copies of questionnaire were



entrepreneurship course. However, perceived behavioural control has the highest mean value that is 15.12 and 19.12 before and after compare to the rest of the mean values of personal attitude is 9.6 and that of subjective norms is 8.82 while of personal attitude is 9.94 and that of subjective norms is 9.4 before and after respectively (Table 2).

**Table 2: Descriptive Statistics of Variable before Entrepreneurship Course**

|         | N   |      | Minimum | Maximum | Mean    | Std. Deviation |
|---------|-----|------|---------|---------|---------|----------------|
| IVC     | 284 | PRE  | 7.00    | 35.00   | 13.8412 | 7.73287        |
|         |     | POST | 7.00    | 35.00   | 27.9325 | 5.61011        |
| PATT    | 284 | PRE  | 6.00    | 22.00   | 9.6127  | 3.55939        |
|         |     | POST | 6.00    | 30.00   | 9.9418  | 3.74992        |
| SUBNORM | 284 | PRE  | 5.00    | 18.00   | 8.8169  | 2.53490        |
|         |     | POST | 5.00    | 23.00   | 9.4075  | 3.10221        |
| PBC     | 284 | PRE  | 9.00    | 44.00   | 15.1221 | 8.65271        |
|         |     | POST | 9.00    | 44.00   | 19.1247 | 6.93176        |

Table 3 shows a positive and significant relationship between independent variables Subjective Norm and Perceived Behavioural control and Intention To Venture Creation at different significant level. There is positive and significant relationship between Intention to Venture Creation and Perceived Behavioural control ( $r=.408$ ) at 1% significant level and Subjective Norm ( $r=.145$ ) at 5% significant level before the intervene factor (entrepreneurship course). The situation is similar with Perceived Behavioural control having  $r=.826$  and Subjective Norm ( $r=.205$ ) at 1% significant level. Personal attitude has no correlation with intention to venture creation. Perceived Behavioural control has highest correlation with intention to venture creation after graduating. After the course, it is found that the strength of the relationship is quite high ( $r=.826$ ) which suggest a strong correlation between the sense of being able to control the related behaviour in entrepreneurship to the intention to venture creation. Therefore, the increase in the correlation can be attributed to the effect of the entrepreneurship course undertaken..

**Table 3: Correlations**

|     |     |                     | IVC | ATTITUDE | SUBNORM | PBC    |
|-----|-----|---------------------|-----|----------|---------|--------|
| IVC | PRE | Pearson Correlation | 1   | .090     | .145*   | .408** |
|     |     | Sig. (2-tailed)     |     | .123     | .013    | .000   |

|          |      |                     |        |        |        |        |
|----------|------|---------------------|--------|--------|--------|--------|
|          | POST | Pearson Correlation | 1      | .036   | .205** | .826** |
|          |      | Sig. (2-tailed)     |        | .542   | .001   | .000   |
| ATTITUDE | PRE  | Pearson Correlation | .090   | 1      | .604** | .310** |
|          |      | Sig. (2-tailed)     | .123   |        | .000   | .000   |
|          | POST | Pearson Correlation | .036   | 1      | .632** | -.053  |
|          |      | Sig. (2-tailed)     | .542   |        | .000   | .375   |
| SUBNORM  | PRE  | Pearson Correlation | .145*  | .604** | 1      | .502** |
|          |      | Sig. (2-tailed)     | .013   | .000   |        | .000   |
|          | POST | Pearson Correlation | .205** | .632** | 1      | .170** |
|          |      | Sig. (2-tailed)     | .001   | .000   |        | .004   |
| PBC      | PRE  | Pearson Correlation | .408** | .310** | .502** | 1      |
|          |      | Sig. (2-tailed)     | .000   | .000   | .000   |        |
|          | POST | Pearson Correlation | .826** | -.053  | .170** | 1      |
|          |      | N Sig. (2-tailed)   | .000   | .375   | .004   |        |

\*\* . Correlation is significant at the 0.01 level (2-tailed). \* . Correlation is significant at the 0.05 level (2-tailed).

The Tolerance was high and the Variance Inflation Factor (VIF) was low to foreclose any existence of multicollinearity among the independent variables as shown in Table 4c below. In Table 4a, the R square values indicated that 17.1% and 68.9% of the variance in IVC was explained by the contributions of PATT, SUBNOR and PBC respectively as shown in table below. Regression-coefficient is an extension of bivariate correlation, indicates the degree of each predictor (explanatory variables) contribution to the variation explained in the dependent variable. At a significant level of 1%, only PBC was found to be significant predictor in both scenarios. PBC explains the most variance in IVC with coefficient value of 0.447 and 0.826 respectively. This shows that PBC explains 44.7% of variation in IVC before and 82.6% after as shown in Table 4b below.

**TABLE 4a: Showing the Results of Regression Analysis**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|---|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
|       |   |          |                   |                            |                   |          |     |     |               |

|      |                   |      |      |         |      |         |   |     |      |
|------|-------------------|------|------|---------|------|---------|---|-----|------|
| PRE  | .413 <sup>a</sup> | .171 | .162 | 5.13500 | .171 | 19.780  | 3 | 288 | .000 |
| POST | .830 <sup>a</sup> | .689 | .686 | 4.33514 | .689 | 206.818 | 3 | 280 | .000 |

a. Predictors: (Constant), PERCEIVED, ATTITUDE, SUORM

b. Dependent Variable: IVC

**TABLE 4b: Showing the Results of Regression Analysis**

| VARIABLES | PRE    |              | POST   |              |
|-----------|--------|--------------|--------|--------------|
|           | Beta   | t-statistics | Beta   | t-statistics |
| ATTITUDE  | .000   | -.007        | .065   | 1.486        |
| SUBNORM   | -.079  | -1.068       | .023   | .518         |
| PBC       | .447** | 7.210        | .826** | 23.869       |

Dependent Variable: IVC

**TABLE 4b: Showing the Results of Collinearity Statistics**

| VARIABLES | PRE       |       | POST      |       |
|-----------|-----------|-------|-----------|-------|
|           | Tolerance | VIF   | Tolerance | VIF   |
| ATTITUDE  | .635      | 1.574 | .574      | 1.742 |
| SUORM     | .525      | 1.903 | .559      | 1.789 |
| PBC       | .748      | 1.338 | .928      | 1.077 |

Dependent Variable: IVC

### Policy Implications

The policy implications of the study for the sustainability of students' interest in venture creation suggest that Colleges of Education should establish an Entrepreneurship Education Centre, as obtainable in Nigeria Universities, in order to create an enabling environment that will provide the required knowledge, skills and opportunities for students to have access to a

large body of talented and skilled individuals, business practitioners and other professionals. This will sustain the students' interest thereby translating intention to potential and subsequent entrepreneurs.

This study, also, recommends that practical exposure to real life experience through workshops, seminars and symposia, be integrated into the teaching. This will aid turning intention to reality.

### **Conclusion**

Going by the findings of this study, PBC variable explains most of the variation in intention to venture creation among the college of education students. The increase in perceived behavioural control implies an increase in the sense of being able to control the related behaviour in the intention to venture creation. This is as a result of the entrepreneurship course undertaken. This supports the finding of Izedomi and Okafor (2010) that students' exposure to entrepreneurship education is capable of provoking the intention of becoming entrepreneurs. Also, increase in R square value lend support to the fact that entrepreneurship education is a factor to be reckoned with in sustaining entrepreneurship drives among Nigeria especially the colleges of education students whose mind has been pre-occupied with paid-teaching job.

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# **THE INFLUENCE OF ACCOUNTING SKILLS ON CORPORATE ENTREPRENEURSHIP IN NIGERIAN QUOTED COMPANIES: AN EXAMINATION**

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## **Abstract**

**Objectives:** The study has as a major objective to establish whether accounting skills relates to corporate entrepreneurship which results in better financial performance of corporations in Nigeria

**Theoretical Background/Previous Practice:** In Nigeria, several reforms took place in the corporate realm with the sole aim of aligning corporations to their primary objectives. Consequently, some corporations emerged as new ones, others were restructured or absorbed while some remained unchanged. These corporations that ‘weathered the storm’ survived an environment characterized by uncertainty both internally and externally and were able to withstand or avert hostile conditions. It is presumed that such organizations do have strong corporate entrepreneurship culture backed by other relevant knowledge or skills like accounting

**Approach/Methods:** The study collected data from 210 financial statements of 30 companies from different sectors of the Nigerian stock market. A simple regression was used to analyze the data collected.

**Results/Insights:** Findings revealed a significant relationship between the variables. That is, possession of Accounting Knowledge has impact in making companies more successful in corporate entrepreneurship.

**Implications: Board** Members would require basic Accounting skills to be able to steer corporations through a path of growth in a ‘fierce’ corporate world. The study recommends that regulatory requirement for budget on training of Board of Directors particularly in the aspect of Accounting and Finance should be upheld

**Keywords:** Accounting Skills, Corporate Entrepreneurship, Nigerian Stock Exchange

## **LIFE EXPECTATION'S VERSUS ENTREPRENEURIAL INTENTION (STUDY AT UNEMPLOYED YOUTH IN INDONESIA)**

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### **Sub Theme:**

Life Long Learning and Skills Development for Sustainable Entrepreneurial Development.

### **Objectives:**

To discuss about the difficulties in developing the entrepreneurial intention in unemployed youth in Indonesia.

### **Theoretical Background/Previous Practice:**

This paper is based on my study about collective entrepreneurship at metropolitan city of Jakarta. This study was done in order to establish a financial independent of the unemployed youth in one of economical undeveloped area in Jakarta. In order to combat the poverty as well as the unemployment, the researcher was trying to equip the youth with the necessities of skills and equipment to become the new entrepreneurs. However, it was shown that in order to develop the entrepreneurial intention there are many factors should be considered and one of them is collective reinforcement, community and family supports as well as role modelling, and coaching.

### **Approach/Methods:**

This study was done using an Action Research approach, involving 20 unemployed youths, and 10 key persons from the community.

### **Results/Insights:**

The results show that it is not easy to develop new entrepreneurs. In this regard, although a person is unemployed and equipped with the life skills so that they can use it to help themselves to become financial independent, but it appears that their expectations are only in relation with finding jobs and become employee in the company. The statuses as employees are more prestige for them, and also they feel that they don't have the guts and resilience to become entrepreneurs. Furthermore, it was also shown that the role of family, especially parents, key stake holders in the community, as well as role models are very important in influencing the intention and expectation of the youths.

### **Implications:**

The future research is needed to study about the factors that can be used to develop and strengthen the entrepreneurial intentions for the unemployed youth. From the results, it can be concluded that family (especially parents), community, institutions and government bodies, should be involved in terms of developing entrepreneurial intentions in order to make the unemployed youth financially independent, and have different mindsets about entrepreneurs, as well as having other preferences not only would like to work as employees.

**Keywords:**

Entrepreneurial Intentions; Collective Entrepreneurship, Expectancy Theory.

**Introduction**

Entrepreneurship is becoming a very relevant instrument to promote economic growth and development the country, which makes Entrepreneurship, has been a topic that always interesting in developing country. The study of entrepreneurship will help not only for entrepreneurs better fulfil their personal needs but also because of the economic contribution of the new ventures more than increasing new jobs. As a result, development of entrepreneurship in the society is very important. On the other hand, people are still reluctant to become entrepreneurs for many reasons, namely: Self Efficacy in terms of Entrepreneurship, reinforcement from the environment/society, Family/Parents' influence, personal traits and people's expectation. This phenomenon has also happened in Indonesia, even in un-employed persons and youth.

In this regard, there has been a significant amount of research into identifying the personal traits and characteristics of entrepreneurs (e.g. Collins and Moore; Brockhaus; Brockhaus and Horwitz; Birch, McClelland; in Morris, 1998; Sexton and Bowman-Upton, in Morris 1998), and most recent research has focused on the more relevant question of why the entrepreneur develops such characteristics (Delacroix and Carroll, in Morris, 1998). The answer to this question is pretty clear-cut: family background. Childhood experiences, exposure to role models, previous job experiences, and educational experiences all have a strong influence on the development of the entrepreneur. Furthermore, several studies have clearly demonstrated that entrepreneurial behaviour is strongly influenced by people's values, attitudes and beliefs (Krueger,; Krueger and Brazeal ; Krueger and Carsrud in Morris 1998).

This study will discuss about the development of entrepreneurial intention, in relation with life expectancy (using the Expectancy Theory) in un-employed youth in an Urban City of Jakarta.

**Objectives**

The objective of the study is to describe the process of entrepreneurship in terms of entrepreneurial intention versus life expectations,

## Literature Review

### Entrepreneur, Entrepreneurship and Entrepreneurial Intention

#### Entrepreneur

*“One who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them?” (Zimmerer, 2008).*

#### Entrepreneurship

“Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence” (Hisrich, Peters, and Shepherd 1998, 2008, p 8).

#### Entrepreneurial Intention

When discussing about Entrepreneurial Intention Model, this cannot be separated with the discussion about the Theory of Planned Behavior

#### Theory of Planned *behaviour*

According to the theory of planned behaviour (TPB), entrepreneurial intention indicates the effort that the person will make to carry out that entrepreneurial behaviour. It captures the three motivational factors, or antecedents, influencing behaviour, namely Personal Attitude; Subjective Behaviour and Perceived Behavioural Control (Ajzen, 1991; Linan, 2004 in Linan et al., 2008). The short explanations about three motivational factors are as follows:

1. Attitude toward start-up (Personal Attitude – PA), refers to the degree which the individual holds a positive or negative personal valuation about being an entrepreneur (Ajzen, 2001, Autio et al. 2001; Kolvereid, 1996b in Linan et al. 2008). It includes not only affective (*I like it, it is attractive*) but also evaluative considerations (*it has advantages*).

2. Subjective Norm (SN) measures the perceived social pressure to carry out or not entrepreneurial behaviours. In particular, it refers to the perception that “reference people” would approve the decision to become an entrepreneur, or not (Ajzen, 2001).
3. Perceived Behavioural Control (PBC) is defined as the perception of the ease or difficulty of becoming an entrepreneur. It is therefore, a concept quite similar to self-efficacy (SE) (Bandura, 1997 in Linan et al., 2008) and to perceived feasibility (Shapero & Sokol, 1982 in Linan et al., 2008). All three concepts refer to the sense of capacity regarding the fulfilment of firm-creation behaviours. Nevertheless, recent work has emphasized the difference PBC and self-efficacy (Ajzen, 2002). PBC would include not only the feeling of being able to, but also the perception about controllability of the behaviour.

### ***Entrepreneurial Intention Model***

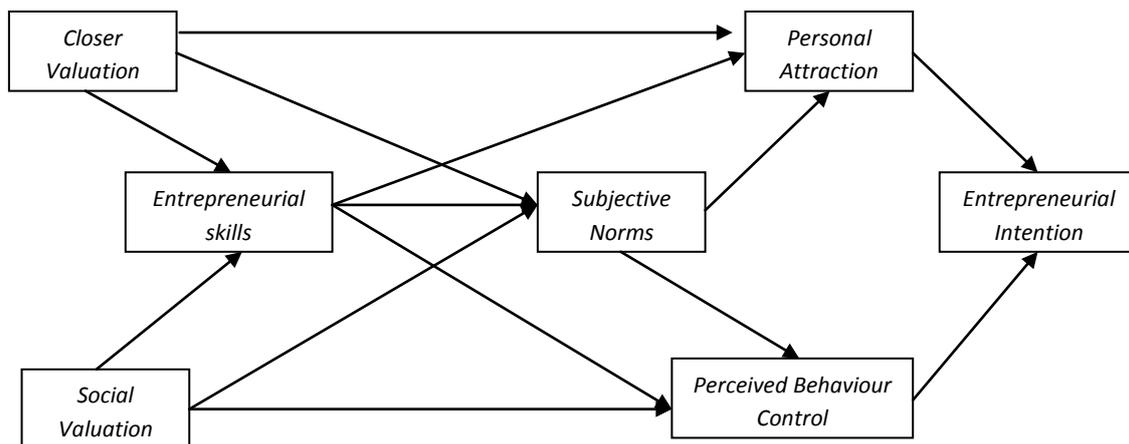


Figure 1

Entrepreneurial Intention Model based on planned behaviour Theory Ajzen in Linan, Urbano & Guerro, 2008)

The similar discussion about Entrepreneurial Intention was stated by Shapero & Sokol (Krueger & Brazeal in Linan, Urbano, & Guerro, 2008), who mentioned that *Perceived Desirability* is equal with the attitude of certain behaviour and subjective norms from Ajzen (Krueger & Brazeal in Linan, Urbano, & Guerro, 2008). Furthermore, it was also mentioned that *Perceived feasibility* from Shapero & Sokol is similar with the terms of *Perceived Behaviour Control* (Krueger & Brazeal in Linan, Urbano, & Guerro, 2008). In

this regard, a person was influenced from *closer environment valuation* and *social valuation*, and the sources of *closer environment valuation* can be parents and or close friends. Furthermore, perception about the skills in entrepreneurship will also influence the person intentions to become entrepreneurs. The higher the skills in entrepreneurship, the higher impact in the individual's entrepreneurial intention.

**The Influence of Personal Life Experience on Entrepreneurial Intention.**

There are many variables that influence entrepreneurial Intentions, in this regard, family and personal life experience were shown as some of the variables. Figure 2 below is a summary of some of the types of personal life experiences thought to be associated with higher levels of entrepreneurship

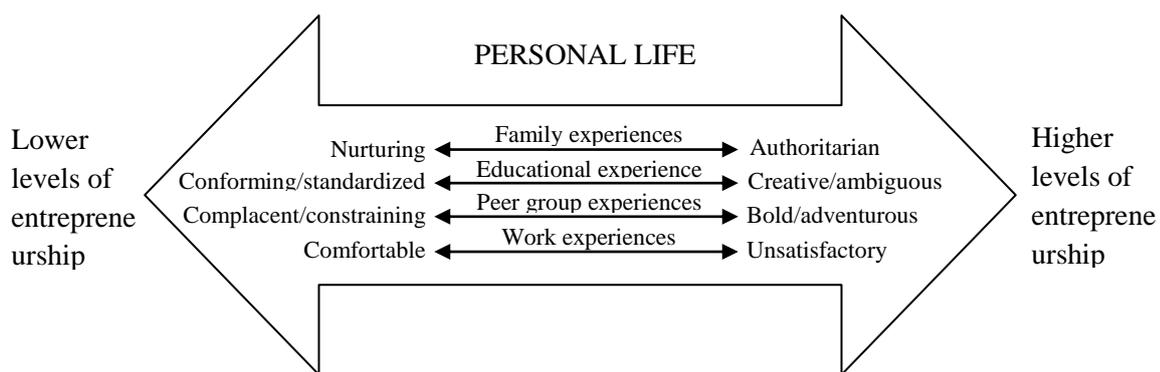


Figure 2: Life Experiences and Entrepreneurship (Morris, 1998)

Researchers have shown that, some relevant aspects of family background that have been examined include parental relationships, order of birth, family income. In this case, parents instil an early sense of independence and desire for control in future entrepreneurs (Bird, 1989: Hisrich and Brush, 1984). Another important determinant of entrepreneurial

behaviour is the individual's exposure to successful role models (Kent; Eisenhardt and Forbes; Scherer, Adams and Wiebe; Bird, and Vesper, in Morris, 1998). Studies have shown that many entrepreneurs have parents who were self-employed (Hisrich and Brush, Roristadt, Shapern in Morris, 1998). Others find themselves working for or with an entrepreneur who becomes a role model. Another form of vicarious experience involves watching a friend develop a business. Such role models demonstrate to prospective entrepreneurs that risk-taking, tolerance for ambiguity, proactive. and innovation leads to independence and self-control.

Educational experiences influence entrepreneurship. Some years ago, Brockhaus and Nord (in Morris 1998) found that entrepreneurs had, on average, a lower level of education than managers. This tendency could lead entrepreneurs to feel limited in traditional organizations. Frustrated by an inability to achieve their desired level of success in established organizations, they choose to pursue a venture in which their own assessment of their abilities is more relevant.

Personal experience with entrepreneurship is another factor in explaining the current or future performance of specific entrepreneurs. Whether the experience comes from ventures started on the side while in school, jobs taken on during summer breaks, or work in the family business, once a potential entrepreneur sees opportunity being capitalized upon, he/she often becomes more opportunity-aware. One of the interesting side-effects of pursuing an entrepreneurial path is the tendency to subsequently recognize additional opportunities for other ventures. Ronstadt (in Morris 1998) has labelled this the "corridor principle."

Finally, previous work experience also shapes the entrepreneur. Brockhaus (in Morris 1998) found that job dissatisfaction "pushes" entrepreneurs out of established organizations and toward developing entrepreneurial ventures. In fact, the majority of entrepreneurs (59%) in Brockhaus's study indicated a desire to start their own business before they had a product or service in mind; only a small percentage (14%) were drawn away from a traditional job by the desire to market a particular product or service. Brockhaus (in Morris 1998) also found that the greater the job dissatisfaction, the greater the likelihood of entrepreneurial success.

In sum, it can be said that environmental factors such as, family/parents, role models, working/educational experience, as well as peer group experience are important variables that influence entrepreneurial intention.

## **Expectancy Theory**

Expectancy Theory was first proposed by Vroom (Aamodt, 2007) and then modified by others, including Porter and Lawler (in Aamodt, 2007). This theory attempts to explain how rewards lead to behaviour by focusing on internal cognitive states that lead to motivation (Spector, 2012). This theory has three components, the definitions of which vary with each modification of the theory. The following definitions are combinations of those suggested by others and make the theory easier to understand, as follows (Aamodt, 2007)

1. Expectancy (E).  
The perceived relationship between the amount of effort an employee puts in and the resulting outcome.
2. Instrumentality (I).  
The extent to which the outcome of a worker's performance, if noticed, results in a particular consequences.
3. Valence (V).  
The extent to which an employee values a particular consequence.

Furthermore, to understand and predict an employee's level of motivation, these components are used in the following formula (Aamodt, 2007, Spector, 2011):

**Motivation/Force = Expectancy x (Instrumentality x Valence)**

In this regard, all possible outcomes of behaviour are determined, the valence of each is multiplied by the probability that it occurs at a particular performance level, and then the sum of these products is multiplied by the expectancy of an employee putting in the effort to attain the necessary level of performance. Furthermore, the following descriptions will explain about each variable in Expectancy Theory (Aamodt, 2007, Spector, 2011).

In this equation, *force/motivation* represents the amount of motivation a person has to engage in a particular behaviour or sequence of behaviours that is relevant to job performance. It could be thought of as the motivation to perform (Spector, 2011).

In this regard, in terms of entrepreneurship, a person will develop his/her motivation and/or entrepreneurial intention as a result of his expectancy about the entrepreneurial activities, the instrumentality and the value (valence) of the outcomes.

In terms of *expectancy*, it is the subjective probability that a person has about his or her ability to perform a behaviour. It is similar to self-esteem or self-confidence in that a person believes he or she can perform the job at a particular level (Spector, 2011, p. 194). Subjective probability means that people can vary in the certainty of their beliefs. A subjective

probability of zero means that the person is certain that he or she is capable of performing successfully. A subjective probability of 1.0 means that the person is absolutely convinced, without the slightest doubt, that he or she can perform successfully. According to Aamodt (2007) if an employee believes that no matter how hard he/she works he/she will never reach the necessary level of performance, then his/her motivation will probably be low.

In relation with entrepreneurial behaviour, if a person believe and convinced that he/she will perform successfully in the field of entrepreneurship, then his/her entrepreneurial motivation/intention will be high.

*Instrumentality* is the subjective probability that a given behaviour will result in a particular reward. For any given situation, there can be more than one reward or outcome for behaviour (Spector, 2011, p. 194). Furthermore, according to Aamodt (2007, in instrumentality the employee will be motivated only if his/her behaviour results in some specific consequences. According to Aamodt (2007, p.327), for a behaviour to have a desired consequence two events must occur. First, the employee's behaviour must be noticed. If the employees believes he is able to attain necessary level performance but that his or her performance will be noticed, then his/her level motivation will be low. Second, noticed behaviour must be rewarded. If no rewards are available, then again, motivation will be low. As discussed earlier, if appropriate behaviour does not have positive consequences or if inappropriate behaviour does not have negative consequences, the probability that a worker will continue undesired behaviours increases, and the probability that an employee will continue desired behaviours decreases.

In terms of entrepreneurial behaviour, a person should perform entrepreneurial activities that will be noticed and have positive reward.

*Valence* is the value of an outcome or reward to a person. It is the extent to which a person wants or desires something. In the job setting, money is a frequent reward that can have different valence levels for different people. For each possible outcome, a valence and instrumentality are multiplied. Then each valence-instrumentality product is summed into a total, and the total is multiplied by expectancy to produce a force score.

In this regard, a person should value the reward that was achieved from entrepreneurial activities. If he/she thinks that the reward is good enough for them, then the intention and motivation to become entrepreneur will be high.

If the force score is high, the person will be motivated to achieve the outcomes of the job. If the force score is low, the person will not be motivated to achieve the outcomes (Spector, 2011, p. 194). Furthermore, Aamodt (2007) mentions that if an employee is rewarded, the reward must be something of values. If good performance is rewarded, the reward must be something he or she values. If good performance is rewarded by an award, then the employee will be motivated only if he values the awards.

However, in order to achieve high force/motivation score, all the three variables (Expectancy, valence and instrumentality) should be high, because if one of them is low, then the results will not be optimum. The details can be seen in Table 1.

Table 1

The Relation of Expectancy, Valence and Instrumentality to Force/Motivation

| Expectancy Score | Valence Score | Instrumentality Score | Force/Motivation Score |
|------------------|---------------|-----------------------|------------------------|
| <b>High</b>      | <b>High</b>   | <b>High</b>           | <b>High</b>            |
| High             | High          | Low                   | Low                    |
| High             | Low           | High                  | Low                    |
| High             | Low           | Low                   | Very Low               |
| Low              | High          | High                  | Low                    |
| Low              | High          | Low                   | Very Low               |
| Low              | Low           | High                  | Very Low               |
| Low              | Low           | Low                   | Extremely Low          |

Source: Spector (2011).

Expectancy theory can also predict a person's choice of behaviour from two or more options. For each possible course of action, there will be an expectancy, valences and instrumentalities. The course of action with the greater force is the one theory that it will take (Spector, 2011).

Van Eerde and Therry (in Spector, 2011) conducted a Meta analysis of expectancy theory studies that looked not only at predictions of job performance but at effort and preferences as well. Although the study showed that the force score is related to measures of job performance, but it is also related more strongly to measures of efforts. Similarly, the force score related more strongly to an individual's preference for something other than their actual

choice. In this regard, having a preference for something is not the same as making an actual choice, for other factors can be important, such as not being able to find another job when he/she want to quit from the present one (Spector, 2011).

### **The Relationship between Life Expectancy and Entrepreneurial Intention.**

Using the concept of expectancy theory, it was mentioned that the force and/or motivation was determined by the level of expectancy, instrumentality, and valence. In this regard, valence is the value of an outcome or reward to a person. It is the extent to which a person wants or desires something, in relation to the life expectancy, it appears that the majority of the people desires to receive money in an easy way, and has a prestige in working in a big company

Furthermore, research shows that the characteristics (personality traits and demographic variables) known to be specific to creators (Gasse and D'Amours, 2000) are only thought to influence intentions when they affect these beliefs and perceptions. More specifically, perceived desirability refers to how attractive the idea of starting up a business is to people (Shapiro and Sokol, in Morris, 1998). In this regard, people are particularly influenced by role models in their circle of family and friends (Audet, 2004). Moreover, cultural and social factors are also directly affecting the perceived desirability of entrepreneurial behaviour (OCDE, 1998); in this regard, social pressure is illustrated, for example, by accepted and respected occupational characteristics.

### **Methods**

The approach for this research was using an Action Research Approach, which started from identification of problems, giving feedback to the stakeholders, planning the solutions, implementation the solutions, evaluations and back again to the problems etc. In this regard, in order to collect the data, the researcher using a combination methods between Qualitative and Quantitative approach, followed with Interview, Focussed group Discussion, and Survey. Figure 3 below illustrates the steps of the Action Research.

Cycle of action *research*

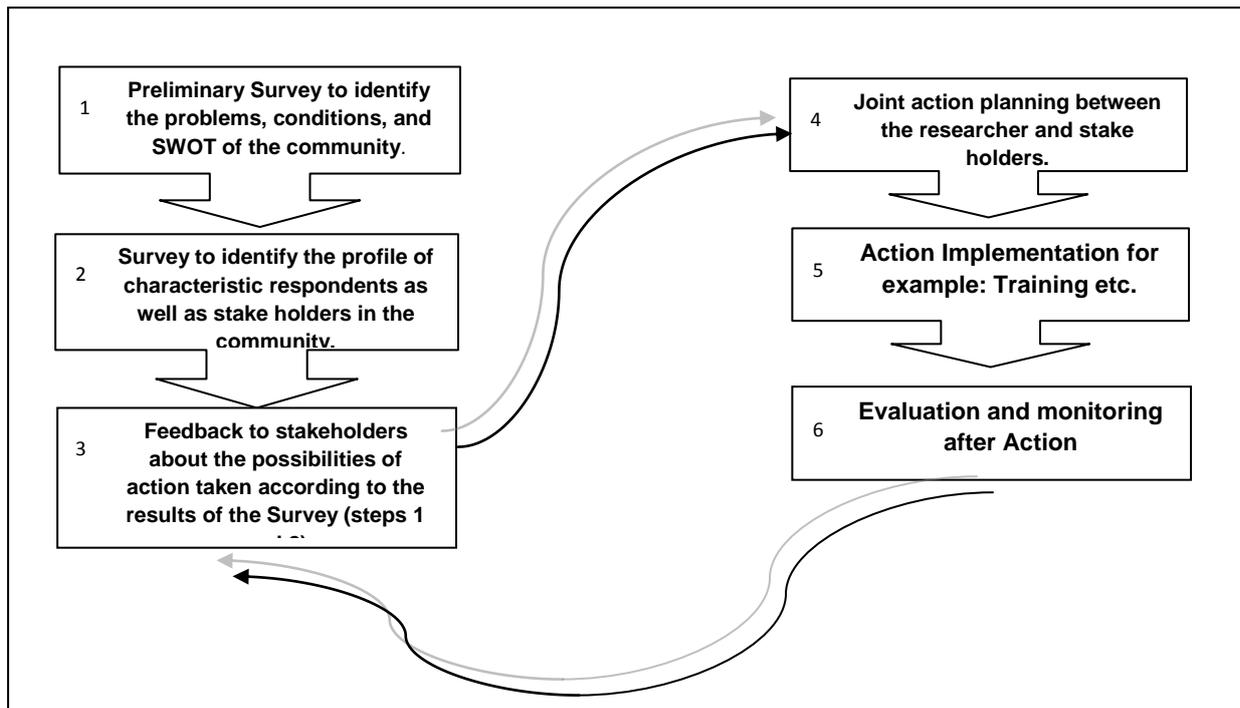


Figure 3: Cycle Action Research (Cummings & Worley, 2009)

### Characteristics Respondents

The characteristics of respondents in this research are as follows:

1. Un-employed persons, who do not have regular jobs,
2. Within the range of productivity age (17-28 years old), which is still under the category of young adult (Early adult transition, 17-22 years old; Entry life structure for early adulthood, age 22-28 years old, Levinson in Turner and Helms, 1995).
3. Have educational background at least Junior High School graduated.

### Findings

The results of the Action Research are as follows:

**Step 1, Preliminary Survey to identify the conditions, problems, and SWOT of the community.**

The following discussion will illustrate the condition of the community, consists of characteristics of Community, Demographic Profile, Characteristics Respondents, Problems faced by the community.

### Characteristics of Community

This village is a very high density consists of 41.973 people, and is regarded as one of poor community in Jakarta. The full demographic data can be seen in Table 1. From the data, it can be seen that only about 40% of that can be regarded as productive age, and the majority of the people falls under the category of age 0-4 years old, (11.769 persons or 21.97%), and in relation with un employed youth, according to the Leader this village consist the majority numbers of unemployed youth compares to other places.

Table 1

### Demographic Profiles

| No | Age              | Male  | %     | Female | %     | Total | %     |
|----|------------------|-------|-------|--------|-------|-------|-------|
| 1  | 0–4 years old    | 6902  | 24,48 | 4867   | 19,19 | 11769 | 21,98 |
| 2  | >4–9 years old   | 2988  | 10,60 | 2005   | 7,91  | 4993  | 9,32  |
| 3  | >9–14 years old  | 1783  | 6,32  | 1890   | 7,45  | 3673  | 6,86  |
| 4  | >14–19 years old | 2514  | 8,92  | 1857   | 7,32  | 4371  | 8,16  |
| 5  | >19–24 years old | 1948  | 6,91  | 2101   | 8,29  | 4049  | 7,56  |
| 6  | >24–29 years old | 1981  | 7,03  | 2010   | 7,93  | 3991  | 7,45  |
| 7  | >29–34 years old | 1785  | 6,33  | 1659   | 6,54  | 3444  | 6,43  |
| 8  | >34–39 years old | 1389  | 4,93  | 1315   | 5,19  | 2704  | 5,05  |
| 9  | >39–44 years old | 1253  | 4,44  | 1253   | 4,94  | 2506  | 4,68  |
| 10 | >44–49 years old | 1009  | 3,58  | 1259   | 4,96  | 2268  | 4,24  |
| 11 | >49–54 years old | 1020  | 3,62  | 1070   | 4,22  | 2090  | 3,90  |
| 12 | >54–59 years old | 1022  | 3,62  | 1025   | 4,04  | 2047  | 3,82  |
| 13 | >59–64 years old | 855   | 3,03  | 811    | 3,20  | 1666  | 3,11  |
| 14 | >64–69 years old | 836   | 2,97  | 797    | 3,14  | 1633  | 3,05  |
| 15 | >69–74 years old | 516   | 1,83  | 761    | 3,00  | 1277  | 2,38  |
| 16 | >75 years old    | 394   | 1,40  | 678    | 2,67  | 1072  | 2,00  |
|    | Total            | 28195 |       | 25358  |       | 53553 |       |

### Problems faced by the Communities

Based on the research done by (Mangundjaya et al., 2010, 2009) the problems faced by the society in terms of un-employed youth are as follows:

1. Low educational background; the majority of them only graduated from Senior High School,

2. Lack of Skills Mastery; in terms of life skills, there are lack of specific skills.
3. Lack of Job Opportunity; as a result of low educational background and lack of skills, job opportunity for them is very limited.
4. Lack of fund to finance entrepreneurship activities, every entrepreneurial activities need fund to start with, in this regard, they (the community and family) have also lack of fund to finance the entrepreneurship activities.

**Step 2: Results of the Survey to identify the profile of characteristic respondents as well as stake holders in the community.**

In order to get a clear picture of the Respondents, the researcher conducts demographic survey for the un employed youth, and has got 51 respondents (N=51). The Table 2 below is the profile of respondents Characteristics.

Table 2

Profile of Respondents' Characteristic

| Variables                      | N  | %    | Variables                       | N  | %    |
|--------------------------------|----|------|---------------------------------|----|------|
| <b>Educational Background</b>  |    |      | <b>Duration stay in Jakarta</b> |    |      |
| Elementary not graduated       | 1  | 2.0  | <1 year                         | 4  | 7.8  |
| Elementary                     | 4  | 7.8  | 1-5 years                       | 7  | 13.7 |
| Junior High School             | 9  | 17.6 | 5 - 10 years                    | 7  | 13.7 |
| Senior High School             | 36 | 70.6 | >10 years                       | 33 | 64.7 |
| University Graduated           | 1  | 2.0  |                                 |    |      |
| Total                          | 51 |      | Total                           | 51 |      |
| <b>Reasons Quitting</b>        |    |      | <b>Occupation</b>               |    |      |
| Graduated                      | 26 | 51.0 | Helping Parents in Trading      | 27 | 52.9 |
| No Financial Funding           | 12 | 23.5 | Trader                          | 7  | 13.7 |
| Want to work                   | 11 | 21.6 | Unemployed                      | 7  | 13.7 |
| Drop Out                       | 1  | 2.0  | Porter & Blue Collar Worker     | 5  | 9.8  |
| Others                         | 1  | 2.0  | Motorcycle Taxi                 | 5  | 9.8  |
| Total                          | 51 |      | Total                           | 51 |      |
| <b>Desire to Master Skills</b> |    |      | <b>Entrepreneurial</b>          |    |      |
| Animal Husbandry               | 1  | 2.0  | Motorcycle Taxi                 | 1  | 2.0  |
| Foreign Language               | 1  | 2.0  | Selling Cookies                 | 2  | 3.9  |
| Graphic Design                 | 1  | 2.0  | Selling Souvenir                | 1  | 2.0  |
| Furniture                      | 2  | 3.9  | Selling Cell phone Voucher      | 3  | 5.9  |
| Computer                       | 12 | 23.5 | Printing                        | 1  | 2.0  |
| Cooking                        | 1  | 2.0  | None                            | 43 | 84.3 |
| Sewing, Embroidery             | 2  | 3.9  | Total                           | 51 |      |
| Machinery                      | 8  | 15.7 |                                 |    |      |

|                  |    |      |                 |           |      |
|------------------|----|------|-----------------|-----------|------|
| Automotive       | 4  | 7.8  |                 |           |      |
| Printing         | 7  | 13.7 | <b>Interest</b> | <b>in</b> |      |
| Beauty Salon     | 2  | 3.9  | No              | 33        | 64.7 |
| Compost Making   | 1  | 2.0  | Yes             | 18        | 35.3 |
| Entrepreneurship | 1  | 2.0  | Total           | 51        |      |
| None             | 8  | 15.7 |                 |           |      |
| Total            | 51 |      |                 |           |      |

From the above table it can be said that the majority of respondents has already stayed in Jakarta more than 10 years (64.7%), and majority (64.7%) do not have interest to become entrepreneurs, and mostly are unemployed (66.6% consists of unemployed and helping parents activities).

### **Step 3: Feedback to stakeholders about the possibilities of action taken according to the results of the Survey**

From the survey findings, it shows that the majority of the respondents are not interested to become an entrepreneur (64.7%). This in line with the results of interview and FGD who have stated that they preferred to become employees rather than become entrepreneurs. This result has also enhanced with their interest in mastery the skills of using computer, and life skills mastery is still low.

Through the discussion with the stakeholders, it shows that the problems associated with the respondents (the unemployed youth) are as follows: 1) Lack of need of achievement, 2) Prefer to have quick yielding jobs, 3) Lack of thoroughness, 4) Prefer to have concrete and real skills.

### **Step 4: Joint action planning between the researcher and stake holders.**

In this step, the researcher and stakeholders discuss the results of identification of problems, and planning the solutions. In this regard, based on the stated problems, the intervention that has been agreed upon is providing the respondent with the skills in welding, as with this skills they can be used both for self employed as well as working in the company, as this training conducted by the well-known polytechnic institution, so the certificates can be used to start a new job and or business by their own.

Moreover, it was also planned that it will develop partnership with Home Industry in Cepogo, Central Java (which well known as the centre of metal's accessories and handicrafts). In this regard, the unemployed youth will be staying with them to learn about welding etc, in order to equip them with the necessary skills in order to develop self employed activities.

### **Step 5: Action Implementation.**

The training for the first batch in elementary welding was done at Depok with 10 participants of unemployed youths, and followed with another 10 participants in the next batch. In order to ensure the presence of the participants, as the location is far from their residences, each participant will receive pocket money every day to cover their cost of transportation and meal. However, the next batch has not done due to respondent's reluctance in participating to this program, as they prefer to have other kind of skills (e.g. computer) in order to equip them in finding jobs.

### **Step 6: Evaluation and monitoring after Action**

After the implementation of the training program, the researcher conduct the monitoring and evaluation with the Stakeholders, and it was found that reactions of the respondents as well as their parents are unfavourable in using the certificate to start a new enterprises and is preferable to find jobs in a big company. Moreover, there was also reluctance from the parent's side about the internship program of their children in Cepogo area to learn the skills of making the metal handicrafts.

## **Discussion**

The study of entrepreneurship has relevance today, not only because it helps entrepreneurs better fulfil their personal needs but also because of the economic contribution of the new ventures more than increasing new jobs. Based on this concept, development of entrepreneurship in the society is very important. On the other hand, people is still reluctant to become entrepreneurs for many reasons, and prefer to become employee although consequently being unemployed for some time until they can find a job. From the study it was shown that it is difficult to turn people to become entrepreneurs (61.7 % is not interested to become entrepreneurs).

One of important determinant of entrepreneurial behaviour is the individual's exposure to

Successful role models (Kent; Eisenhardt and Forbes; Scherer, Adams and Wiebe; Bird, and Vesper, in Morris, 1998). Studies have shown that many entrepreneurs have parents who were self-employed (Hisrich and Brush, Roristadt, Shapern in Morris, 1998). Others find

themselves working for or with an entrepreneur who becomes a role model are also important. Another form of vicarious experience involves watching a friend develop a business. Such role models demonstrate to prospective entrepreneurs that risk-taking, tolerance for ambiguity, proactive, and innovation leads to independence and self-control.

However, in this research, although the majority of the parents' respondents are trader (in a very small scale activities such as opening a Kiosk or selling something in a market), but this role model of entrepreneurship is not strong enough to develop entrepreneurial intention for their children. Moreover, the nurturing life experiences that the respondents have been through in their early life, as well as the complacent peer group experiences and standardized /conforming educational experience (Morris, 1998) have influenced them in having lower level of entrepreneurship.

Furthermore, using both the Planned Behaviour Model (Linan, 2008), and Expectancy Model, it was shown that Entrepreneurial Intention was influenced by Personal Attraction and Perceived Behaviour Control, as well as valence, instrumentality and expectancy seems are not sufficient enough to raise the intention of the youth to become the entrepreneurs.

Moreover, it was shown that the act of entrepreneurship is stimulated by a combination of factors relating to individual such as attitudes and perceptions. As a result, the influence of environment on these dimensions is today beyond doubt. In this regard, the participation of all stakeholders (university, communities, government, ministry, NGO, association and other institutions) is very important. The collaborative programs such as delivering trainings for unemployed people capacity building, partnering with university and government (ministries) were some of the interventions.

### **Limitations of the Study**

This study was done involving not only the participants (the unemployed youth) but also the Stakeholders in the community (including the formal and informal leader). However, the research was not involving the parents of the participants, which in this case were playing important role in the decision making to become entrepreneurs.

### **Implications**

The future research is needed to study about the factors that can be used to develop and strengthen the entrepreneurial intentions for the unemployed youth. From the results, it can be concluded that government bodies, community, institutions and family (parents) should be involved in terms of developing entrepreneurial intentions in order to make the unemployed youth financially independent, and have different mindsets about entrepreneurs and working

as employees. In this regard, the role of family (parents) should not be overlooked in the research.

### **Concluding Observations**

From the observation, it can be concluded that it is not easy to develop the interest of the people to become an entrepreneurs; especially from the start (before the intervention) the interest to become entrepreneurs is quite low. In this regard, in order to develop the entrepreneurial intentions of the people, the valence (values) and the instrumentality should be high. Socialization about the and how to become entrepreneurs as well as small training, coaching, mentoring, and reward to enhance the interests are needed. Furthermore, involving and participation of family (parents) should be enhanced.

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# **WHAT ARE THE FACTORS STRENGTHENING THE ENTREPRENEURIAL INTENTION IN UNIVERSITY STUDENTS?**

**(STUDY AT UNIVERSITY STUDENTS IN INDONESIA)**

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## **Abstract**

### **Objectives:**

To identify what are the factors that can be used for strengthening the entrepreneurial intention in students.

### **Theoretical Background/Previous Practice:**

This paper is partly based on my previous paper called the relationship of resilience and entrepreneurial intention which was done between students and employees. This research was done as a career in entrepreneurship offers significant opportunities for individuals to achieve financial independence and benefit of the economy by contributing to job creation, innovation and economic growth. However, in Indonesia there was only 0.18 percent from about 200 million people who are entrepreneurs which is far less than 2 percent of the people. As a result, there are many government programs undertaken in order to boost new entrepreneurs. In this regard, the identification of the profile of entrepreneurial intentions in students, will also add the information needed about factors needed to strengthen and/or develop this intention.

### **Approach/Methods:**

This paper is written based on 5 research studies done at University students, which collaborated into one research umbrella under the topic of Entrepreneurial Intention.

### **Results/Insights:**

The results show that in general the University Students can be categorized as having moderate entrepreneurial intentions. However, there are no significant correlation amongst locus of control, emotional & behaviour independent as well as adversity quotients with entrepreneurial intentions. On the other hand, there is a positive and significant correlation between entrepreneurial self efficacy and observational learning with entrepreneurial intention. From the study it can be concluded that, the characteristics of the person itself are not enough in developing the entrepreneurial intention. There should be a basic entrepreneurial self efficacy on them, and supported with the presence of role models.

### **Implications:**

The future research is needed to study about the psychological characteristics as mentioned in relationship with the entrepreneurial intentions in a larger and in more diverse respondents. On the other hand, it appears that in relation to enhance the entrepreneurial intentions in students there should be more efforts in terms of training, workshops, role modelling in order to develop stronger entrepreneurial intentions in University students.

**Keywords:**

Entrepreneurial Intentions; Locus of Control; Adversity Quotient; Emotional & Behavioural Independence; Entrepreneurial Self Efficacy; and Observational Learning.

**Introduction**

Entrepreneurship is becoming a very relevant instrument to promote economic growth and development the country, this condition makes entrepreneurship has been a topic that always interesting in developing country, and has become a priority for several societies. In this regard, there is a capacity of new firm to contribute to economic growth (Achs and Armington, 2003), jobs and innovation (Reynolds, Storey and Westhead, 1994). Moreover, a career in entrepreneurship also offers significant opportunities for individuals to achieve financial independence and benefit of the economy by contributing to job creation, innovation and economic growth. However, in Indonesia there are only 0.18% of 220 million people who are entrepreneurs which is far less than 2 percent of the people. With this condition, universities are increasingly being called upon to play a more active role, in particular by providing their students with education and support to make an entrepreneurial career easier to undertake. The involvement of universities is all the more important given that this career avenue is becoming a more common and necessary choice for students. Certain studies have focused on the entrepreneurial intentions of university students (Audet, 2004; Boissin and Emin, 2006; Kolvereid, 1996; Tkachev and Kolvereid, 1999). Fillion, L'1-Ieureux, Kadji-Youlaeu and Bellavance (2002) showed that 58% of Québec university students intended to start up a business. Several studies have clearly demonstrated that entrepreneurial behaviour is strongly influenced by peoples values, attitudes and beliefs (Krueger, 1993; Krueger and Brazeal, 1994; Krueger and Carsrud, 1993). In spite of these researchs, it seems that the proportion of university students willing to step into self-employment is small. However, it also appears that entrepreneurial intentions are a function of a "regional dimension", which is shaped different social and cultural environments. Much research has been done about the factors which stimulate entrepreneurial activity (Franco et al., 2010). More importantly, beliefs are influenced by the national culture and social context.

In this regard, strengthening students' confidence to become an entrepreneur through the mechanisms known to affect self-efficacy beliefs—mastery experiences, role modeling, social persuasion, and physiological states (locus of control, adversity, independency) appears to have an important impact at the early, prelaunch stage of an entrepreneurial venture. This research will study the impact of those psychological factors as well as observational learning to entrepreneurial intention in university students.

## **Objectives**

The objective of this study is to identify what are the factors that can be used for strengthening the entrepreneurial intention in University students.

## **Literature Review**

### **Entrepreneur, Entrepreneurship and Entrepreneurial Intention**

#### Entrepreneur

*“one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.” (Zimmerer, 2008):*

#### *Entrepreneurship*

“Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence” (Hisrich, Peters, and Shepherd (1998, p.8; 2008).

*“Entrepreneurship is the process, brought by individuals, of identifying new opportunities and converting them into marketable products or service” Schaper & Volery (2007)*

*“The entrepreneur is the cornerstone of the entrepreneurial process-the chief conductor who perceives an opportunity, marshals the resources to pursue this opportunity and builds an organization which combines the resources necessary to exploit the opportunity”. Schaper & Volery (2007).*

## *Intention*

“Intentions capture the motivational factors that influence a behavior: they are indications of how hard people are willing to try, of how much of an effort they are planning to exert in order to perform the behavior”. (Hisrich, Peters, and Shepherd (2008).

*Intention is a transition of a person from an intention to engage in certain behaviour. This intention remains a behavioral disposition until, at the appropriate time and opportunity, an attempt is made to translate the intention into action” (Ajzen ,2005).*

## Entrepreneurial Intention

*Entrepreneurial Intention is the motivational factors that influence individuals to pursue entrepreneurial outcomes.” (Hisrich, Peters, & Sheperd, 2008, p.58).*

“A person’s location on a subjective probability dimension involving a relation between himself and some action”. (Ajzen, 2005; Fishbein & Ajzen,1975)

*“A behavioral intention, therefore, refers to a person’s subjective probability that the will perform some behavior”.* (Fishbein & Ajzen,1975)

*“Intentions capture the motivational factors that influence a behavior; they are indications how hard people are willing to try, of how much of an effort they are planning to exert in order to perform the behavior.” (Hisrich, Peters, & Sheperd, 2008).*

## **Entrepreneurial Intention**

When discussing about Entrepreneurial Intention Model, this cannot be separated with the discussion about the Theory of Planned Behavior.

## **Theory of *Planned behavior***

According to the theory of planned behavior (TPB), entrepreneurial intention indicates the effort that the person will make to carry out that entrepreneurial behavior. It captures the three motivational factors, or antecedents, influencing behavior, namely Personal Attitude; Subjective Behavior and Perceived Behavioral Control (Ajzen, 1991; Linan, 2004 in Linan et al., 2008). The short explanations about three motivational factors are as follows:

1. Attitude toward start-up (Personal attitude – PA), refers to the degree which the individual holds a positive or negative personal valuation about being an entrepreneur (Ajzen, 2001, Autio et al. 2001; Kolvereid, 1996b in Linan et al. 2008). It includes not only affective (I like it, it is attractive) but also evaluative considerations (it has advantages).
2. Subjective norm (SN) measures the perceived social pressure to carry out or not entrepreneurial behaviors. In particular, it refers to the perception that “reference people” would approve the decision to become an entrepreneur, or not (Ajzen, 2001).
3. Perceived behavioral control (PBC) is defined as the perception of the ease or difficulty of becoming an entrepreneur. It is therefore, a concept quite similar to self-efficacy (SE) (Bandura, 1997 in Linan et al., 2008) and to perceived feasibility (Shapero & Sokol, 1982 in Linan et al., 2008). All three concepts refer to the sense of capacity regarding the fulfillment of firm-creation behaviors. Nevertheless, recent work has emphasized the difference PBC and self-efficacy (Ajzen, 2002). PBC would include not only the feeling of being able to, but also the perception about controllability of the behavior.

***Entrepreneurial Intention Model***

*Perceived desirability* from Shapero & Sokol is equal with the attitude of certain behavior and subjective norms from Ajzen (Krueger & Brazeal in Linan, Urbano, &Guererro, 2008). *Perceived feasibility* from Shapero & Sokol (*perceived behavior control*) Krueger & Brazeal in Linan, Urbano, & Guererro, 2008).

In this regard, a person was influenced from *closer environment valuation*) and *social valuation*, and *the sources of closer environment valuation* can be parents and or close friends. On the other hand, perception about the skills in enterpreneurship will also influence the the person intentions to become enterpreneurs. The higher the skills in enterpreneurship, the higher impact in the individual’s entrepreneurial intention.

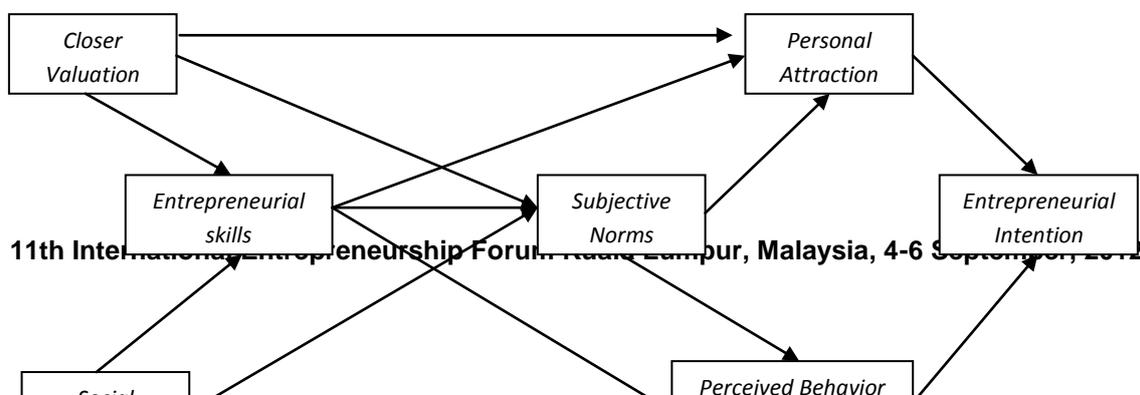


Figure 1.

Entrepreneurial Intention Model based on Planned Behavior Theory

(Ajzen in Linan, Urbano & Guerro, 2008)

## **Locus of control and Entrepreneurial Intention**

Definition of Locus of Control

*Locus of control is “A concept that describes a person’s perception of responsibility for the events in his or her life. More specifically, locus of control refers to whether people tend to locate that responsibility internally, within themselves, or externally, in fate, luck, or chance.” (Larsen & Buss (2005).*

*Locus of control is “The extent to which individuals believe that they can control events that affect them”. (Schaper & Volery (2007).*

*Locus of Control is an attribute indicating the sense of control that a person has over life”. (Hisrich & Peters,1998.)*

## **Correlation between Locus of Control and Entrepreneurial Intention**

The issue of the relationship between Locus of control and Entrepreneurial Intention, was mentioned by Caird (1993) who stated that an important characteristics to become an entrepreneur are need of achievement, internal locus of control, creativity and risk propensity.

Mariano, Zarnowska, & Palaci (in Moriano & Gorgievski, 2007) also mentions that there are 4 traits that always be an important issues in Entrepreneurial Intention namely need of achievement, internal locus of control, risk propensity and self efficacy. Moreover, Gurol & Atsan (2006) has studied about *entrepreneurial characteristic*, found that students who have Entrepreneurial Intention tend to have higher *locus of control internal* compares to those who do not have the Entrepreneurial Intention. On the other hand, Farid (2007) found that Egypt entrepreneurs are having low score in internal locus of control.

## **Emotional, Behavioral Independency and Entrepreneurial Intention**

Definitions:

“Autonomy refers not no freedom from others (e.g.,parents), but freedom to carry out actions on one’s own behalf while maintaining appropriate connections to significant others.” Hill and Holmbeck (Collins, Gleason, & Sesma, 1997).

“The capacity to make decisions independently, to serve as one’s own source of emotional strength, and to otherwise manage one’s life taks without depending on others for assistance (Shaffer, 2002)

### **Factors of Independency**

Steinberg (2002) has mentioned three aspects of independency as follows: *emotional autonomy*, *behavioral autonomy*, and *value autonomy*, as follows:

- a. Emotional Independence/autonomy  
Emotional Independence is related with the changing relationship between a person and his/her close encounters, especialy their parents. However, although the quality of relationship was changing, but it does not mean the relationship between a person and his parents will be destroyed (Guisinger & Blatt, in Steinberg, 2002). Independent means is not dependent too much with the parents but still having close relationship with them. Some of the characteristics are as follows: a) Establishing de-idealization about the parents, means a person do not think that parents all-knowing and all-powerful; b) Able to interact with parents as individuals and not as parent and child anymore (Smollar & Youniss; White, Speisman, & Costos, 1983 in Steinberg, 2002); and c) Non-dependency; that is the feeling individualized in terms of relationship with his parents.
- b. Behavioral Independence/autonomy

*Behavioral autonomy* according Hill & Holmbeck (Steinberg, 2002), has the characteristics as follows: 1) Ability to make decisions, in this regard a person is able to perceive problems from different side of angles, and making good consideration of inputs from others before making decisions, 2) Resilience from other influences, Durkin (1995) mentioned that resiliency from other influences is the ability of the person to act as his/her own confidence not because of conformity with his/her peers and 3) *Self-reliance*. *Feeling of self-reliance* focusing on the subjective valuation of the individual about how independence they are. A person with high self-reliance will show high self-esteem and will perform less difficult behavior (Owens, Mortimer, & Finch; Wolfe & Truxillo in Steinberg, 2002).

c. Value autonomy

Value autonomy/independency has developed as a new complex process, which has developed after emotional and behavioral independency has established. Value independency is the aspect of independence that related with individual capacity in developing as well as stick on the guiding principles of values.

### **Correlation between Emotional, Behavioral Independency and Entrepreneurial Intention**

According to Robinson and Hunt (1988), one the characteristics personality that have important influence in entrepreneurship is independency. Burnadib (in Mu'tadin, 2002) defines independency as the condition that a person has the passion to compete and develop in order to develop himself, and able to take initiative in decision making, have the self confidence to do their tasks, and have the responsibility and accoutabilty in his jobs. In this regard, a good entrepreneur will have a high independency, as Harrel & Alpert (in Vecchio, 2003) mentions that the high level of independency will motivate a person to start his own business and can become the predictor of his success in entrepreneurship.

On the other hand, Barbuto (2003) mentioned that a person with low level independency will produce better entrepreneurial behavior compares with the person with high level independency. This is due to a person with low level of independency is accustomed to work with systematic structure, as a result will produce more consistent result. In this regard, the findings of Vecchio (2003) and Barbuto (2003) are different compares to the majority theory about the relationship between independency and entrepreneurship as well as entrepreneurial intention.

## Adversity Quotient and Entrepreneurial Intention

Adversity Quotient can be regarded as a “hardwired pattern of response to all and magnitudes of adversity, from major tragedies to minor annoyances” (Stoltz, 2000: 3.).

Furthermore, Stoltz (2000) mentioned that there are 4 CORE dimensions that make up the AQ; namely Control, Ownership, Reach, and Endurance.

### 1) Control

Control has two facets. First to what extent that you are able to positively influence a situation? Second, to what extent can you control your own response to a situations? Control is about 1). Your perceived ability to alter a situation, and 2) your Response Ability, which is the ability to control your own response to anything that may arise. In this regard, can be divided by two categories; a. delayed Response Control, and b. Spontaneous Response Control. In this regard, Control influences all that follows from adversity, as well as the price you pay from the moment it strikes. The greater the adversity, the greater the potential toll, and the more profound the benefits of positive influence and response control.

### 2) Ownership

Ownership helps us to redefine accountability in highly constructive and practical terms. The dimensions of your AQ assess the extent to which you take it upon yourself to improve the situation at hand, regardless of its cause.

### 3) Reach

Reach explores how far you let adversity go into other areas of your work and life. Reach determines how large you perceive the problem to be, or its apparent extent. Logically, the larger the problem appears, the greater its potential to induce fear, helplessness, apathy, and inaction.

### 4) Endurance

Endurance dimensions assess and describe how long one perceives the adversity will endure. Those with lower AQs are more likely to perceive adversity as enduring, and those with higher AQs possess an almost uncanny ability to see past even the most dire circumstances (Stoltz, 2000).

Table 1:

The Characteristics of High and Low AQ Scores

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| Low AQ score | High AQ score |
|--------------|---------------|
|--------------|---------------|

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|                                       |   |
|---------------------------------------|---|
| Easily Giving up                      | Be resilient in the face of adversity               |
| Become overwhelmed                    | Be a top performer and sustain high performance     |
| Become depressed                      | Be <i>authentically</i> optimistic                  |
| Not tap one's full potential          | Take necessary risks                                |
| Feel helpless                         | Thrive on change                                    |
| Suffer illness                        | Remain healthy, energetic, and vital                |
| Propagate the Nocebo Effect           | Take on difficult and complex challenges            |
| Get mired in problems                 | Perseverance  |
| Avoid challenging jobs and situations | Innovate to find solutions, Learn, grow and improve |
| Leave good ideas and tools unused     | Be an agile problem solver and thinker              |

Source: Stolz (2000)

### **Correlation between Resilience (EQ) and Entrepreneurial Intention**

Previous research shows that, there are a positive and significant relationship between Self Resilience/high AQ score and Entrepreneurial Intention, which mostly has strongly contributed by the Control dimension. In this regard, it means that with higher the AQ score, the higher also the score of Entrepreneurial Intention. This research was done at employee, however other research done with University students shows that there is no positive correlation between Adversity Quotient score and Entrepreneurial Intention.

### **Entrepreneurial Self Efficacy (ESE) and *Entrepreneurial Intention***

#### ***Definitions***

#### ***Self Efficacy***

*Perceived self efficacy refers to beliefs to beliefs in one capabilities to organize and execute the courses of action required to produce given attainments. (Bandura, 1997)*

#### **Entrepreneurial Self Efficacy (ESE):**

*ESE refers to the strenght of a person.s belief that he or she is capable of successfully performing the various roles and task of entrepreneurship. (Chen, Greene & Crick, 1998),*

## **Factors Affecting Entrepreneurial Self-Efficacy**

Self-efficacy is a motivational construct that has been shown to influence an individual's choice of activities, goal levels, persistence, and performance in a range of contexts.

Formal education in this regard can provide examples of the lifestyles and working styles of successful entrepreneurs that will help individuals develop their own psychological coping strategies. Psychological coping strategies may help individuals maintain motivation and control work or career-related anxiety, leading to higher expectations of success. All of these learning opportunities are likely to be tailored to provide positive outcomes that individuals will attribute to their own ability, effort, and performance strategies. Such attributions should lead to increased self-efficacy for entrepreneurial tasks.

Risk propensity is related to the individual's judgment of his or her own likely physiological state while pursuing his/her entrepreneurial venture, which includes levels of anxiety and arousal (Gist & Mitchell, 1992). In this case, individuals with high risk propensity tend to be more comfortable dealing with situations of risk and in fact perceive the situation objectively and less risky than others (Sirkin & Weingart, 1995).

## **The correlation Entrepreneurial Self-Efficacy and Entrepreneurial Intentions**

High self-efficacy will perform in a specific behavioral setting that lead individuals to approach that setting, whereas low self-efficacy lead individuals to avoid that setting (Wood & Bandura, 1989). In this regard, the research shows that there is a positive relationship between entrepreneurial self-efficacy and entrepreneurial intentions with a sample of business and psychology students (Zhao et al., 2005).

## **Five dimensions of Entrepreneurial Self Efficacy**

There are five dimensions of ESE, namely: 1) *Marketing*, which can be regarded as the process of identifying the needs, production, promotion and distribution the product. 2) *Innovation*, is the ability to produce creative solutions in order to solve the problems and to enhance the quality of life (Zimmerer & Scarborough, 2008) 3) *Management*, is the knowledge and art in planning, organizing, directing, coordinating and controlling human resource in order to achieve the goals and objectives (Lee in Swastha, 1995). 4) *risk-taking*, is the ability to count the risk that will be faced and able to make the decision under stress and conflict situation (Chen, Greene & Crick, 1998), and 5) *financial control*, is the ability of the person in handling the financial funds, making priority in funding as well as controlling of the spending of funds (Chen, Greene, & Crick, 1998).

## ***Entrepreneurial Self Efficacy at University Students***

Research done by Wilson, Kickul, & Marlino (2007) shows that Entrepreneurial Self Efficacy has positively correlated with Entrepreneurial Intention. Furthermore, self efficacy was said as one of the major variable that influence individual to become an entrepreneur (Bloyd & Vozikis in Chen, Green & Crick, 1988). Other researchs done by Wilson, Kickul, & Marlino (2007) has also mentioned that entrepreneurial self efficacy has positively correlated with entrepreneurial intention, both in University Students as well as in Senior High School students.

### ***Correlation between Entrepreneurial Self Efficacy and Entrepreneurial Intention***

*Entrepreneurial Self Efficacy* (ESE) is the power of confidence that belongs to the person, which enables him/her to reach success in entrepreneurship roles, task and activities (Chen, Greene, & Crick, 1998). In this regard, if a person has high self efficacy he or she will have high commitment in achieving their goals and objectives. The level of self efficacy will also influence the amount of efforts that a person will allocate in order to finish their jobs. (Zimmerman, in Bandura, 1997:203).

### ***Role Model and Entrepreneurial Intention***

Another important determinant of entrepreneurial behavior is the individual's exposure to successful role models (Kent, .1986; Eisenhardt and Forbes, 1984; Scherer, Adams and Wiebe, 1989; Bird, 1989; Vesper, 1990). Studies have shown that many entrepreneurs have parents who were self-employed (Hisrich and Brush, 1984; Roristadt, Shapern in Morris, 1998). Others find them-selves working for or with an entrepreneur who becomes a role model. Another form of vicarious experience involves watching a friend develop a business. Such role models demonstrate to prospective entrepreneurs that risk-taking, tolerance for ambiguity, proactiveness, and innovation lead to independence and self-control (Morris, 1998).

The theory of observational learning also mentioned that role model is very important in modelling activities, even it can be said it is the centre of modelling activities Bandura (in Ormrod, 1999, Feist & Feist, 2006). Moreover, according to Social Learning Theory, learning

can happen although there is no direct experience, but through observation of the model. Through modelling, a person can learn something valuable from the successful role model that have succeeded passed the difficult times (Ormrod, 2006).

## **Observational Learning**

There are two types of model Bandura (in Ormrod, 1999) namely : 1) Direct Model; that is the model that directly expressing the behavior; 2) Symbolic Model; that is the indirect model, through the media such as television, radio, computer etc.

## **Observational Learning Process**

Bandura (1986) mentions 4 process in observational learning as follows:

- a. Attention process, this process in relation with the fact that human being cannot learn without paying attention to the behavior of the role model (Bandura in Cooper, 2005). Bandura (in Cooper 2005) mentions that a person will pay more attention to the model that give them positive reward rather than to the model that did not give them anything.
- b. Retention Process  
Model activities will not give high impact to the individual, if a person cannot remember it. (Bandura in Cooper, 2005), as a result the observer should do something to remember the behavior of the role model.
- c. Production Process.  
According to Bandura (in Cooper 2005), production process related to the ability of observer to express the behavior of the role model. In this process, a person will organize the learned behavior to a new responses (Bandura, 1986).
- d. Motivational Process  
Motivational process is the factor that determines the emerging learned behavior. Bandura (1986) mentions that motivational process will determine whether the result of observational learning will be exposed in behavior or not, without motivation this behavior will not be exposed. Motivation will exist because there is meaningful incentive for the individual.

## **Factors influencing observational learning**

Factors that can determine whether a person has been learned from a model or not are as follows (Bandura dalam Feist&Feist, 2006):

1. Model Characteristics.

People in general will copy other person with high status compares to the person with lower status, and will be more copying the behavior of a competent person, rather than un competent one as well as copying a powerful person rather than powerless people. In this case, models should have special characteristics in order to become a source of effective observational learning. The followings are the characteristics of effective observational learning model (Schunk et al, 2008): a) Competency, competency of the model that perceived by individual will increase observational learning as a person tend to follow a competent model rather than uncompetent model (Schunk in Schunk et al, 2008). b) Similarities with the model, The similarities with the model is an important source of information that can motivate people (Bandura in Schunk et al, 2008). Similarities will help the observer to measure behavior conformity and form expectations about the expected results. The more congruence subject to the observer, the higher the possibilities of behavior shown by the model will be performed by the observer (Bandura in Schunk et al, 2008) c) Credibility, Credibility of the model will influence the motivation of the observer to show the behavior of the model. The observer will asses the credibility of the model which consistently behave and try to do similar things as the model did (Bandura in Schunk et al, 2008 d) Enthusiasm, a model that express messages enthusiastically will escalate the learning and motivational process of the observer compares to the model who is less enthusiastic (Ferry in Schunk et al, 2008). Enthusiasm model will influence the observer because a person will pay more attention to the model who is enthusiastic. Furthermore, enthusiasm model also improve self-efficacy because verbal persuasion is the source of information source of the efficacy (Schunk et al. 2008) c) Observer characteristics. People with a low of status, power, and skills are usually intent to copy from others. d) Behavioral consequences of the model. In this regard, the higher value given by the observer, the more possible those behavior are learnt.

In relation to the theory of social learning developed by Bandura (in Laviolette & Radu, 2008), learning can occur through direct experience or observation towards others that are referenced as the model. Learning through observation toward others, usually called vicarious learning, providing space for individual to develop their belief about the consequences of specific behavior and to assess their ability to provide similar things in the same context. Therefore, it can be said that observational learning process can increase or decrease individual motivation to enter entrepreneurial career in a row with the assessment of others' success that have been observed.

In relation with social learning theory, role model is a part of modelling, or to be more exact as a reference in modelling poces (Feist & Feist, 2006). Learning through modelling covers addition and subtraction of behavior that is observed, generalized, and observed from one to another. In other words, modelling covers cognitive process, not as simple as imitation. Modelling is more than just fitting behavior, but covering representation of information in symbolic way and reserve it to be used in the future (Bandura, in Feist & Feist, 2006). Bandura (in Cooper, 2005) also stated that modelling already be recognized as one of the most effective method to do value, attitude, paradigm, and behavior transmission.

Some of descriptive studies also recorded the significance influence of direct role model to the decision making to start a business (Brockhaus & Horwitz, in Laviolette & Radu, 2008). The result of those studies show that around 35-70% entrepreneurs have their own entrepreneurs role model to be copied (Laviolette & Radu, 2008).

The entrepreneurs stories also become an important role as an inspiring stories and will keep pushing the process of achieving the condition that is shown by the model (Steyart &

Bouwen, in Laviolette & Radu, 2008), though the content of the stories are not always about the achievements. The success and failure stories can inspire potential entrepreneurs in different time and situation, regarding to the purpose they want to achieve.

### **Correlation between Role Model and *Entrepreneurial Intention***

Observational learning is an individual learning process according to the role model that a person has. Researchers have mentioned that role model providing the experience and observational learning for a person (Lent, Brown & Hacket dalam Auken et al, 2006). In relation with entrepreneurial intention, the successful role model has been identified as an important factor compares to other key contextual factors in entrepreneurial intention (Boyd & Vozidis in Laviolette & Radu, 2008). Role model is an important factor in entrepreneurship, as they can give subjective experience about the role model. Subjective experience that a person get from role model, case study, books, movies, seminar etc will be an important and beneficial variable to the observer in order enabling them to have iddal hopes and expectations (Laviolette & Radu, 2008).

The final process of observational learning is motivation process (Bandura, 1986). Motivation process is related with incentives that a person will get if they are performing the behavior as expressed by the role model. In this stage, the observer will decide whether he/she will be an entrepreneur or not. From the key contextual variables and entrepreneurial intention, role model is categorized as an important role in entrepreneurial learning and career development (Boyd & Vozidis in Laviolette & Radu, 2008). Role model can be said as the ones that influence the entrepreneurial style and career (Hisrich, Peter & Sheperd, 2005). Role Model can be a person that performs certain behavior, or symbolic model that is a person or behavior that indirectly performs the behavior or through media (Ormrod dalam Riyanti, 2008). Direct model or symbolic model are two kinds of role model in relation with the access for a person with the designated role model.

Furthermore, Scherer (in Linan dkk, 2005) also mentioned that having an acces to the role model is a key element. Moreover, Ormrod (1999), mentioned that direct model is the direct access to the role model as a person can directly observe the targeted role model. Scherer (in Auken & Stephen, 2006) also emphasize this with the statement that students who have enterpreneur parentns will have high entrepreneurial intention compares with students that their parents are employees.

On the other hand, symbolic model is indirect access for role model, as people observe the role model indirectly, but through media. In this regard, media can be books, television, film and other media (Ormrod, 2006). This symbolic model can also become the sources of entrepreneurial intention.

The Development Theory of Young Adult

Levinson (in Turner and Helms, 1995) has divided the stages of development of era of early adulthood (17-45 years old), as follows: Early adult transition (17-22 years old); Entry life structure for early adulthood (age 22-28 years old), age transition (28-33 years old), culminating life structure for early adulthood (33-40 years old), and after that enter the mid-life transition (age 40-45 years old). In this regard, 20-25 years old has already enter the last stage of early adult transition and enter the early entry life structure for early adulthood.

According to Levinson (Turner and Helms, 1995) in *early adult transition*, there are two task of developments, as follows: 1) Finalizing the adolescent life and leaving the pre-adult stage, which means minimizing the dependency with the parents and family 2) Developing the basic adult life in order to become a part of adult life. In this regard, a person should know better about him/herself as well as the environment. Choices should be made according to the specific plan.

In the stage of entry life structure for early adulthood every individual has to life structure that relates his own value with the values of adult in general. Students with the age between 18 to 25 years old, according to Papalia, Olds, dan Feldman (2007) is in the stage young adulthood. In this stage, independency plays a very important role in the life of a person. In this regard, Winston, (1998) mentions that achieving the independency is the important developmental task that should be achieved.

Furthermore, Chiccelli (2008) mentioned that independency will help a person:

- a. To be able to pass the transition to become adult, as at present is more difficult , with all the continuous changes in every aspects.
- b. Help the person losing their dependency with their families, regardless they have worked or not. .
- c. Develop the person's emotional maturity, that enables him/her to protect themselves from any kind of potential illness.
- d. Push a person to have commitment and maturity to his/her personal and social projects, that relates with humanity, solidarity, art, environment etc.

Furthermore, Steinberg (2002) has also mentioned that individuals who are in the stage of young adult is able to achieve his emotional independency and in the process of value independency.

## **Methods and Measures**

### **Sampling and Sample**

This study consists of 522 respondents of University Students, which consist of 5 studies respectively, study 1 (120 respondents, study 2 (73 respondents), study 3 (100 respondents), study 4 (128 respondents) and study 5 (101 respondents). The sampling method was using convenience sampling method.

### **Tools of Measurements**

This study is using 6 tools of measurement namely: 1) Entrepreneurial Intention Questionnaire 2) Internal Locus Control, 3) Independency (Emotional and Behavioral), 4) Adversity Quotient, 5) Entrepreneurial Self Efficacy and 6) Observational Learning. Each of the tools of measurement have already tested is reliability and validity as mentioned in table 2.

Table 2  
The results of Reliability and Validity

|  | Reliability<br>(Cronbach Alpha) | Validity | Number of items |
|--|---------------------------------|----------|-----------------|
| Entrepreneurial Intention                | 0.964                           | 0.783**  | 26 items        |
| Observational Learning                   | 0.846                           | 0.829**  | 12 items        |
| Adversity Quotient                       | 0.872                           | 0.880**  | 18 items        |
| Enterpreneurial Self Efficacy            | 0.961                           | 0.812**  | 25 items        |
| Independency (Emotional and behavioural) | 0.947                           | 0.895**  | 13 and 19 items |
| Locus of Control                         | 0.9                             | 0.871**  | 9 items         |

\*\* Sign. at  $p < 0.01$

#### Data Analysis

The data was analysed using correlation and regression.

#### Findings

The following tables will show about the category of Entrepreneurial Intention (EI); Locus Of Control; Emotional and Behavioural Independency; Adversity Quotient, Entrepreneurial Self Efficacy, and Observational Learning as well as the correlation between variables to Entrepreneurial Intention.

Table 2

#### Descriptive Statistics

|  | Study 1 | Study 2 | Study 3 | Study 4 | Study 5 |
|--|---------|---------|---------|---------|---------|
|--|---------|---------|---------|---------|---------|

|   | (LOC)      | (Independency) | (AQ)     | (ESE)      | (Role Model) |
|---|------------|----------------|----------|------------|--------------|
| N   | 120        | 73             | 100      | 128        | 101          |
| Category Entrepreneurial Intention (EI)   | 5.8%       | 86.3%          | 45.2 %   | 3.90 %     | 17.8%        |
|   | (Low)      | (Moderate)     | (Low)    | (Low)      | (Low)        |
|   | 55%        | 13.7%          | 54.8%    | 71.88 %    | 47.5%        |
|   | (Moderate) | (High)         | (High)   | (Moderate) | (Moderate)   |
|   | 39.2%      |                |          | 24.21 %    | 34.7%        |
|   | (High)     |                |          | (High)     | (High)       |
| Category of LOC (Study 1)                 | 67.5 %     |                |          |            |              |
|   | (Internal) | -              | -        | -          | -            |
|   | (High)     |                |          |            |              |
|   | 32.5 %     |                |          |            |              |
|   | (external) |                |          |            |              |
|   | (Low)      |                |          |            |              |
| Category Emotional Independency (Study 2) |            | 13.7%          |          |            |              |
|   | -          | (Low)          | -        | -          | -            |
|   |            | 86.3%,         |          |            |              |
|   |            | (Moderate)     |          |            |              |
|   | Study 1    | Study 2        | Study 3  | Study 4    | Study 5      |
|   | (LOC)      | (Independency) | (AQ)     | (ESE)      | (Role Model) |
| Category AQ (Study 3)                     |            |                | 58.1     |            |              |
|   | -          | -              | (low)    | -          | -            |
|   |            |                | 30.1     |            |              |
|   |            |                | (Medium) |            |              |
| Category ESE (Study 4)                    |            |                |          | 1.56 %     |              |
|   | -          | -              | -        | (Low)      | -            |
|   |            |                |          | 78.12 %    |              |
|   |            |                |          | (Moderate) |              |
|   |            |                |          | 20.31%     |              |

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|                    |               |            |
|--------------------|---------------|------------|
|                    | (High)        |            |
| Category           | Observational | 4%         |
| Learning (Study 5) | - - - -       | (Low)      |
|                    |               | 39.6 %     |
|                    |               | (Moderate) |
|                    |               | 56.4 %     |
|                    |               | (High)     |

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Table 3:

Correlation and Regression between variables and Entrepreneurial Intention

| Correlation between Variables                               | r     | R2    | Adjusted R2 | Significant |
|---|-------|-------|-------------|-------------|
| LOC and Entrepreneurial Intention                           | 0.059 | 0.003 | 0.002       | 0.817       |
| Emotional Independency and Entrepreneurial Intention        | 0.033 | 0.001 | 0.001       | 0.787       |
| Behavioral Independency and Entrepreneurial Intention       | 0.109 | 0.012 | 0.010       | 0.562       |
| Adversity Quotient and Entrepreneurial Intention            | 0.149 | 0.022 | 0.018       | 0.153       |
| Entrepreneurial Self Efficacy and Entrepreneurial Intention | 0.684 | 0.468 | 0.446       | 0.000**     |
| Role Model and Entrepreneurial Intention                    | 0,562 | 0,316 | 0,288       | 0.000**     |

Los \*p<0.05; \*\*p<0.01;

The results show that:

- a. The majority of University students have moderate level of Entrepreneurial Intention.
- b. The majority of University students have Internal Locus of Control.
- c. The majority of University students have moderate level of Adversity Quotient.
- d. The majority of University students have moderate level of Entrepreneurial Self efficacy (ESE).

- e. The majority of University students have moderate level of Emotional and Behavioural Independency.
- f. The majority of University students have have entrepreneurs as role model in order to conduct observational learning.
- g. There is no significant correlation between Internal Locus of Control and Entrepreneurial Intention.
- h. There is no significant correlation between Independency both Emotional Independency and Behavioural Independency and Entrepreneurial Intention.
- i. There is no significant correlation between Behavioural Independency and Entrepreneurial Intention.
- j. There is positive and significant correlation between Entrepreneurial Self Efficacy and Entrepreneurial Intention.
- k. There is positive and significant correlation between Observational Learning and Entrepreneurial Intention.

### **The correlation between Internal Locus of Control and Entrepreneurial Intention**

The results of the study shows that there is no significant correlation between Internal Locus of control with Entrepreneurial Intention. This study supported the findings by Farid (2007) who found that Egypt entrepreneurs are having low score in internal locus of control. On the other hand, Gurol & Atsan (2006) has studied about entrepreneurial characteristic, found that students who have entrepreneurial intention tend to have higher internal locus of control compares to those who do not have the entrepreneurial intention.

### **The correlation between Adversity Quotient and Entrepreneurial Intention**

The data shows that there is no positive significant correlation between Adversity Quotient and Entrepreneurial Intention and in general the score of AQ is in low level. The interesting results shows that the students have quite high score in Entrepreneurial Intention but in general has low scores in Adversity Quotient, this score should be taken into thorough consideration, because if the students actually become entrepreneur but without the adequate supports from his attitude and traits (in this regard their resilience) then there will have some problems in the future. In this regard, university management should also equip the students not only with the development of their intention and skills as entrepreneurs but also equip them with soft skills needed as tough and competent entrepreneurs.

### **The correlation between *Entrepreneurial Self Efficacy* (ESE) and Entrepreneurial Intention**

The results show that there is a positive correlation of 0.684 between *Entrepreneurial Self Efficacy* (ESE) and Entrepreneurial Intention, meaning that the higher score of

*Entrepreneurial Self Efficacy* (ESE), than the Entrepreneurial Intention will be higher also. Furthermore, the study also shows that *Entrepreneurial Self Efficacy* (ESE) has contributed 44.6% to the emergence of Entrepreneurial Intention, while 55.4% has been contributed from other variables,

### **The correlation between Observational Learning from Role Model and Entrepreneurial Intention**

According to the results it shows that Entrepreneurial Intention has positively correlated with observational learning that consists of: attention, retention, production and motivation. The results also shows that Observational Learning contribute about 28,8% to the emergence of entrepreneurial intention, which means that there is still 71,2% of the entrepreneurial intention can be explained through different variables.

### **Discussion**

This research shows that the majority of students (91,78%) have moderate entrepreneurial intention. In one side, this research supports the findings of Hisrich and Shepherd (2008) who mentioned that the majority of entrepreneurs today are graduated from university. However, at this research, only 8,22% of the respondents who have high intention to become entrepreneurs. This results show that only small numbers of final year university students have the intention to become entrepreneurs. This findings in line with the research by the Central Statistic Bureau 2002 that mentions only about 6% of Senior High School and University graduates who becomes entrepreneurs. Many of the university students polled had thought eventually creating their own business or being self-employed. The percentage of students with entrepreneurial intentions was 68%, a somewhat higher rate than the 57.7% found by Filion et al., (2002). This findings emphasized of what Franco et al., (2010) mention that the proportion of university students willing to step into self-employment is small. But it also appears that entrepreneurial intentions are a function of a “regional dimension”, which is shaped different social and cultural environments.

The results of the study shows that there is no significant correlation between Internal Locus of control with Entrepreneurial Intention. In this regard, although previously it was discussed that one of the 4 important traits of entrepreneurship is internal locus of control, but in this study there is no significant and positive correlation between Internal Locus of Control and Entrepreneurial Intentions.

This study shows that the majority of the students have moderate emotional independency (86,3%), and moderate behavioural independency (50,68%) and high behavioural independency (49,32%). This result is in line with the theory of Steinberg (2002) who has mentioned that young adult should have reached emotional and behavioral independency. However, according to this research, both emotional and behavioral

independency have not significant correlation with Entrepreneurial Intention. This study emphasized the statement of Vecchio (2003) who stated that the role of independency with the entrepreneurial intention should be investigated further. In this regard, although a person has changed the relationship with their parents in order to achieve their emotional independency, however this does not mean that the relationship between them will be ruined (Guisinger & Blatt, in Steinberg, 2002). This condition shows that emotional independency does not mean has to be separated from their parents, as well as does not mean emotionally depend highly on their parents, but still have close relationship with them.

Furthermore, the results of this research show that there is a positive correlation between Entrepreneurial Self Efficacy (ESE) and Entrepreneurial Intention. This finding supports the previous research done by Chen, Greene, & Crick (1998) who mentions that there is positive and significant correlation between Entrepreneurial Self Efficacy (ESE) and Entrepreneurial Intention. According to Bandura (in Feist & Feist 2006), this relationship can be done because self efficacy has strongly influenced the emerging of individual behavior (Bandura dalam Feist & Feist 2006). With this reason, a person who think that they have high self efficacy in performing as entrepreneur, will have high tendency to enter entrepreneurship world compares to those who have low ESE (Chen, Greene, & Crick, 1998).

In this study, it shows that observational learning has positively correlated with Entrepreneurial Intention. This result emphasized the research done by Auken et al, (2006) who mentions that role model has played an important role in career intention at Senior High School Students in Mexico and United States.

Other researchs done by Wilson, Kickul, & Marlino (2007) has also mentioned that entrepreneurial self efficacy has positively correlated with entrepreneurial intention, both in University Students as well as in Senior High School students. On the other hand, othe research mention that *self efficacy* is one of predictor about individual interest in certain jobs (Markham et al., in Krueger, Reily & Casrud, 2000). Other researchers also mention that although there are many personality factors that will influence entrepreneurial intention of the individual, however, *entrepreneurial self efficacy* was stated as the major variable that infleunce individual to become an entrepreneur (Bloyd & Vozikis in Chen, Green & Crick, 1988).

## **Limitations and Directions for Future Research**

One limitation of this study is the use of only self-report measures. Although some of the constructs are conceptualized as self-reports (e.g., self-efficacy), a second source of data would be particularly useful for other variables, such as the extent of learning from formal education.

A second limitation is the use of a behavioral intention measure as the dependent variable. The link between behavioral intention and subsequent behavior, even for complex behaviors requiring planning and a coordinated sequence of activities, is well established in theory and supported by extensive empirical research (Ajzen, 1991). Because becoming an entrepreneur is widely viewed as an intentional behavior (Bird, 1988), it is important to understand the factors that produce this intention, regardless of the factors that may subsequently prevent the intention from becoming a reality.

### **Implications**

This findings emphasized of what Franco et al., (2010) mention that the proportion of university students willing to step into self-employment is small. But it also appears that entrepreneurial intentions are a function of a “regional dimension”, which is shaped different social and cultural environments. In this regard, much research has been done about the factors which stimulate entrepreneurial activity.

The act of entrepreneurship is stimulated by a combination of factors relating to individual such as attitudes and perceptions. The influence of environment on these dimensions is today beyond doubt. Although the role of environment and context is recognized, entrepreneurship is often assumed to be a common concept across cultures (Gasse & Maripier , 2011). As a result, to become an Entrepreneurship University, there should be many activities such as trainings, coaching, etc. should be done in order to enhance the entrepreneurial intention in the university students.

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# IMPLEMENTING OF ENTREPRENEURSHIP EDUCATION AT WIDYAGAMA UNIVERSITY OF MALANG, INDONESIA

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## Abstract

University undergraduate or graduate unemployment was highest in Indonesia compared with other graduates. Central Bureau of Statistics released, as of February 2010, open unemployment rate reached 8.59 million people. A total of 1.22 million people or 14.24 percent of whom are undergraduates. BPS showed that the number of unemployed graduates increased compared with that of previous years. BPS data show, in February and August 2009, unemployed graduates respectively 12.94 percent and 13.08 percent.

In this situation, unemployment problem will impact negatively to social stability. This condition is supported by the fact that the most of graduated unemployment are job seekers than job creators. It is happened because learning system in universities is focused on how to prepare the students graduate fast and get the job, not to prepare them as the job creators. So it's very important for universities to motivate their students be young entrepreneurs.

One effort to overcome and prevent unemployment among the educated, especially the students, is a need to prepare for entrepreneurial generation seriously since elementary school. It will create the young generation as job creators, not job seekers. Besides, changing students' mindset from job seekers to be job creators is not easy. At least there are two ways for changing students' mindset, namely developing an entrepreneurship curriculum and entrepreneurship project.

Widyagama University as one of private universities in Indonesia has scientific identity "*go research and entrepreneurial university*". Widyagama University students should take entrepreneurial subjects in the classroom and must follow the activities of entrepreneurial competencies that held by P2K (Center of Entrepreneurship Development). Subjects in the classroom to teach the theory of entrepreneurship, but on the competence class students learn to create a business plan to start up business (entrepreneurship project). Besides, P2K also join entrepreneurship projects held by the other parties, such as PMW, P2KPN, IbK.

The government needs to take a role to support the growth of entrepreneurs from an early age. Entrepreneurship curriculum needs to be included in the lessons from elementary school, because it needs a long time to prepare the entrepreneurial young generation. Entrepreneurship education may be part of the solution to overcome the unemployment problem.

*Key words : entrepreneurship education, job seeker, job creator, entrepreneurship curriculum, entrepreneurship project*

## **1. Introduction**

The economic crisis that began in 1997 has devastated the various systems and joint life of the nation of Indonesia. One is the economic sector in which many large companies went bankrupt has caused discharging of employees everywhere. This condition is exacerbated by rising fuel prices that encourage increased production costs so it has impact on rising prices, reducing consumer purchasing power, increasing unemployment and increasing numbers of poor people. This condition caused the employment growth slower than labor force growth, so it creates unemployment and has an impact on poverty.

To overcome the limitation on government ability in creating employment opportunities, an effort to solve the increasing number of unemployed and poor population is by empowering communities to be entrepreneur through developing SMEs (small medium enterprises), because there are 44,693,759 small medium enterprises or 99.84% of business unit able to absorb labor by 82.2 million workers (88.64%) of the total labor force in Indonesia (BPS, 2005). In addition, SMEs have also proven more resistant (surviving) in facing of economic crisis than big business. The results of National Socioeconomic Survey (SUSENAS) conducted by the Central Statistics Agency (BPS) in March 2006 suggested that the number of poor people in Indonesia as much as 39.05 million or 17.75 percent of its total 222 million population. Poor population increase four million people compared with it recorded in February 2005. Then, total population of Indonesia in 2007 is 224.904.900, and based on the national employee survey, about 10 million people is categorized as unemployment, 30.4 million is categorized as half-employed that worked less than 35 hours per week (ILO, <http://www.ilo.org/global/>).

The unemployment rate is in the range of 10.8 percent to 11.5 percent of the total population who entered the labor force category. Even they have graduated from college more difficult to get jobs because there is not much expansion of business activities. University undergraduate or graduate unemployment was highest in Indonesia compared with other graduates. Central Bureau of Statistics released, as of February 2010, open unemployment rate reached 8.59 million people. A total of 1.22 million people or 14.24 percent of whom are undergraduates. BPS showed that the number of unemployed graduates increased compared with that of previous years. BPS data show, in February and August 2009, unemployed graduates respectively 12.94 percent and 13.08 percent.

High unemployment rate indicates that the undergraduate degree is still a problem. This problems should be concerned by all parties, universities and other parties having an interest to overcome the problem of unemployment. One effort to overcome and prevent unemployment among the educated, especially the students, is a need to prepare for entrepreneurial generation seriously since elementary school. It will create the young generation as job creators, not job seekers.

Entrepreneurship education or training in Indonesia has been supplemented into many education curriculums. But mostly the majority of the implementation still emphasizes on teacher centered not students centered, with limited number of session hours or credits. On the other hand, entrepreneurship education abroad have been implemented sophisticatedly in terms of curriculum and learning strategy, and also enhanced not only by the support and

commitment from the university or college concerned, but also supported by government and private companies. The type of learning activities will certainly be influenced by the way and how the educational objective is designed.

Entrepreneurship education has been widely applied in many universities abroad and inside the country. This occurs because the benefits are not just as catalyst some branch of science of economics and business (such as accounting and financial, management, marketing etc) when students create business plans, but also has inspired creation of curriculum and teaching methodology other subjects. In addition, the impact on individuals and the community environment strengthen more the importance of entrepreneurship education for students who incidentally is the young generation who will become the actors in the economy of a country.

## 2. Objective

The objectives of this paper is to describe implementation of entrepreneurship education for growing new entrepreneurs at Widyagama University.

## 3. Theoretical background/Previous Practice

### 3.1. The importance of Entrepreneurship Education

According to Ciputra : “*An entrepreneur is a person who has the ability to change feces and wreckage into gold*”. He said that the definition of entrepreneur is not only related to business. It is also related to other fields. According to him, there are four groups of entrepreneur:

- Business Entrepreneur. This group is divided into two groups. There are owner entrepreneurs and professional Entrepreneurs. Owner entrepreneurs are the creators and owners of the business. A professional entrepreneur is a person who has an entrepreneur’s soul, however he/she works as an employee in a business.
- Government entrepreneur. A government entrepreneur is a leader of a country who is able to manage and grow the entrepreneur spirit of his/her citizens. An example of a government entrepreneur is Lee Kuan Yew, an ex president of Singapore.
- Social entrepreneur. People who are included in this group are the founding fathers of social organizations in the world who are successful in collecting funds from society in order to do social work. An example of someone from this group is Mohamad Yunus, an establisher of Grameen Bank and a noble achiever in 2006.
- Academic Entrepreneur. People who are in this group include academics who teach at school or arrange educational organizations with entrepreneurship style. Harvard and Stanford University are universities which arrange the educational world with an entrepreneur’s style.

Entrepreneurship education seeks to provide [students](#) with the knowledge, skills and motivation to encourage entrepreneurial success in a variety of settings. Ciputra explained that there were 5 important reasons why entrepreneurship should be taught at school. **First**, many people of the young generation did not grow up in entrepreneurship culture. In Indonesia, inspiration and business exercises were not taught at school. **Second**, the numbers of unemployed in Indonesia are high. **Third**, the numbers of opportunities for employment are limited. Job opportunities are not equal with the numbers of unemployment. **Forth**, the

growth of entrepreneurship can create opportunities for employment; and can also create social welfare in society widely. According to David McClelland, a great sociologist, a country will develop if there are entrepreneurs at least 2% of the citizens. According to the report which was published by Global Entrepreneurship Monitor; in 2005, the number of entrepreneurs in Singapore was about 7.2% of the population. Indonesia only has 0.18% from the number of its citizen. It is not strange the income of Singapore increases tens times more than Indonesia. **Fifth**, Indonesia is very rich with natural resources, however, the natural resources are not arranged well. It happens because Indonesia has less human resources (entrepreneur) who are able to change feces and wreckage into gold.

Ciputra said that the people who are more ready to be taught and exercised as entrepreneur are students. According to him to create enough entrepreneurs in Indonesia, Indonesia should do a quantum leap. There are three ideas in the quantum leap. **First**, in the primary and secondary level there should be curriculums that teach about entrepreneurship. **Second**, entrepreneurs should be created and developed in the graduate level. **Third**, there should be national entrepreneurship training movements done by the government and people in order to teach a wider group of people.

In the developed countries, entrepreneurship education in colleges is popular because of 5 reasons (Charney & Libecap, 2000), namely:

- a. Making the business plan directs students to combine accounting, economics, finance, marketing and other business disciplines, so it can enrich their knowledge.
- b. Entrepreneurship education can promote the establishment of new enterprises by graduates or strengthening employment prospects and the success of graduates in the labor market
- c. Entrepreneurship education can promote technology transfer from universities to the market through the development of technology-based business plans.
- d. Entrepreneurship education creates a relationship between the business community and community colleges. Entrepreneurship education is viewed by business leaders as a useful approach to application to study business and economics, and they have opened themselves to fund entrepreneurship programs and provide a place for an apprenticeship.
- e. Because there is no standard approach to entrepreneurship education, so it's very possible to make trial and error in its curriculum.

### **3.2. Can entrepreneurship be learned and taught?**

In the past patterns of entrepreneurial development was not considered systematically produce entrepreneurs. Entrepreneur is more determined by individual talent or character, or congenital birth, not the process that is planned. Now the phenomena show that entrepreneurship is a discipline that can be learned and taught. According to Ciputra (2008), entrepreneurship can be taught if using the exact methodology. Peter Drucker said : *“The entrepreneurial mystique? It's not magic, it's not mysterious, and it has nothing to do with the genes. It's a discipline. And, like any discipline, it can be learned.”*

According to Ashe Higher Education Report (2007), a student study success is determined by two measures, namely (i) the amount of time and effort to engage students in

the learning process and (ii) the ability of universities to provide resources, curriculum, facilities and program activities that attract participation students to enhance the actualization, satisfaction and skills. In the context of entrepreneurship education, it appears that participation and the ability of college students need to be synergy, in order to provide the best service delivery to student entrepreneurs. Thus, through education can be planned in both quantity and quality needs of entrepreneurs.

### **3.3. The goals of Entrepreneurship Education**

Basic setting goals in general education that has been known is Bloom's Taxonomy, which is based on Benjamin Bloom's concept (1956) who developed 3 basic domains into the realm of educational goals of cognitive, affective, and psychomotor. Each sphere contains a category hierarchy starting from the simplest to the most difficult, meaning that the first difficulty level (basic) must already be mastered before working on the next level objectives.

**Cognitive domains** include knowledge and intellectual skills development which consists of 6 categories, namely: knowledge, comprehension, application, analysis, synthesis, and evaluation.

**Affective domains** include emotional behavior in the face of something like the feeling, appreciation, enthusiasm, motivation and attitude. In this tiered affective domains include 5 categories of behavior of the simplest to the most complex, namely : accept, respond, and assess the phenomenon, organize and compare the values, and internalize values.

**Psychomotor domains** include movement and physical coordination, and use aspects of motor skill that requires practice and is measured by speed, accuracy, distance, procedures, or techniques for implementation. There are seven main categories starting from the simplest to the most complex, namely: perception, readiness to act, directed response (imitation and trial and error), the mechanism (custom made), complete response, adaptation, originality (creating a new movement).

Entrepreneurship education is a combination of knowledge, skills and attitudes (Galoway, 2005). Besides Heinonen and Poikkijoki (2006) depicts that entrepreneurship education is a unifying goal-blend of skills and attributes or characteristics of an individual entrepreneur to the entrepreneurial process and behavior. Appear in the image that the process of entrepreneurial learning is the combination of individual entrepreneur who must have skills and attributes through the process which behavioral formed. Skills include problem solving, creativity, persuasion, planning, negotiation and decision-making. Attributes include self-confidence, independence, outcome orientation, flexibility, dynamic and resourceful. Then the process involves the desire, the search and discovery of opportunities, the decision to exploit opportunities. Behavior consists of innovation, change, initiative, problem solving, persuasion, and commitment.

### **3.4. Entrepreneurship Education since early age**

Entrepreneurship education should be started as early as possible from elementary to senior high schools levels. The curricular developed should be in a comprehensive and coordinated framework towards higher education institutions (World Economic Forum,

2009). Entrepreneurial characters are designed to know, to do, and to be entrepreneur. The roles undertaken are: (i) internalization of the values of entrepreneurship, (ii) improving skills and knowledge transfers in terms of marketing, financial, and technology; and (iv) support for entrepreneurship (*business setup*).

Entrepreneurship spirit can be instilled by parents when their children at early age. Entrepreneurship leads to mental changes. So, do not have contested, whether the entrepreneurial skills thanks to the talents or educational outcomes. To become an entrepreneur needed a reliable leading characters, which include:

1. The introduction of yourself (Self Awareness)
2. Creative
3. Ability to think critically
4. Ability to solve problems (Problem Solving)
5. Can communicate
6. Able to bring themselves in different environments
7. Appreciate the time (Time Orientation)
8. Empathy
9. Want to share with other people
10. Able to handle stress
11. Able to control emotions
12. Able to make decisions

These characters will be formed through a long process. In this process, the child's parents need to take the role. Parents need to supervise children by giving good example and keep his words with action. In addition, parents participate to motivate children, evaluate, and give children an appreciation for his accomplishments. Building the entrepreneurial spirit is very important, especially with the increasing number of educated unemployment.

For some people, education can be a driving factor for the success of entrepreneurship. Someone did not need to predicate of scholars to be an entrepreneur, but with a background of academic education, it will open many opportunities. So, the main problem in building the entrepreneurial spirit is a lack of awareness of the importance and urgency become an independent and youth entrepreneurship. So, early stage that must be done in empowering the youth is to build an independent young people and instill the spirit of entrepreneurship alive so easy to build self-reliance. In this context, education should not just to print the generation of highly skilled and competent, but also must be able to print the entrepreneurial generation.

The paradigm that schools only seeking knowledge, then find a job, should be changed to seek knowledge and apply it in the field. Thus, national education should be able to bring a generation educated to create jobs. Entrepreneurship education is taught from primary school can change the type of our national education that had already become insecure due solely focused bureaucracy to print a new generation that just to fill the offices only. With the fact that the more educated unemployment rate jumped from year to year, now it's time since elementary school children are taught to recognize the various types of entrepreneurship, as an alternative to face the future beyond the ideals of a civil office. Mental aristocracy as a consequence of bureaucratic self-conscious, which has been the type of education our nation, must begin to be removed, because the facts show that job vacancies in the office are always limited, by contrast, employment opportunities outside the office is wide open for all generations.

### 3.5. Implementation of Entrepreneurship Education In Indonesia

The existing curriculum in high school probably caused the graduates are not ready to choose self-employment career, or started their own businesses because they are only prepared to continue to college. Similarly, college graduates are generally prepared to work as employees (job seekers). Choosing an entrepreneurship career are exceptional cases, except for those who have a family background of entrepreneurs, especially among ethnic descent.

Entrepreneurship education or training in Indonesia has been supplemented into many tertiary education curriculums. But mostly the majority of the implementation still emphasizes on teacher centered not students centered, with limited number of session hours or credits. In terms of the policy of the Indonesian government is actually already aware of the importance of entrepreneurship in economic development by issuing a Presidential Decree No.4 of 1995. Various programs have been launched to develop a good entrepreneurship by various departments or ministries, including state-owned or private sector participation through the CSR (*Corporate Social Responsibility*) program. Within the scope of the national education, many universities insert entrepreneurship into the curriculum. Entrepreneurship education program was included in the curriculum with a range of weights per semester between 2 to 3 credits, with the meetings / sessions in the class 1.5 to 2.5 hours per week, while in the polytechnic system could mean 2 times within 3 hours of class attendance one week. The lecture implementation will not be much different from teaching other subjects in the form of giving the theory in the classroom where students generally represents a passive participant. Yet in each of the learning process to be effective, learners or students should be involved in the learning experience.

Though late, in 2010 government plans to include entrepreneurship in the public high school's curriculum. Entrepreneurship teaching and learning process if not designed effectively using appropriate pedagogical approach will only lead the traditional teaching-learning process which remains centered on the teacher, the focus on "*hard-skill*" and ignore the "*soft-skills*" that are very important for entrepreneurial learning.

Challenge of Indonesian higher education today is how to change the paradigms of college graduates from job seekers to job creators. According to Ciputra, anticipate the limitation of current employment is to become an entrepreneur. Individual must be capable of creating opportunities (*opportunity creators*), able to create things or new ideas are original (*innovator*) and the latest must have the courage to take risks and able to calculate (*calculated risk taking*). Entrepreneurship is not something that can not be learned. The college became one of the most fitting place to do it. For entrepreneurship education, the Directorate General of Higher Education Ministry of National Education of Indonesia make entrepreneurship program as a national priority programs to be executed by all universities in Indonesia. The programs are named Program Mahasiswa Wirausaha (PMW), Program Kreativitas Mahasiswa Kewirausahaan (PKMK), Ipteks bagi Kewirausahaan (IbK) as entrepreneurship projects. According to the Director General of Higher Education, entrepreneurship is one solution to overcome the scholars who are unemployed after graduating from higher education. Therefore, this entrepreneurship program will be continually developed on campuses.

#### 4. Method

Method of implementing entrepreneurship education at Widyagama University is combination between theory and practice. Theory is given in class and practice is given out class through competencies at P2K. The stages of creating new entrepreneurs are :

- a. Constructing entrepreneurship curriculum
- b. Entrepreneurship Training
- c. apprentice
- d. Business plan competition
- e. Start up business

#### 5. Discussion

Efforts to foster new entrepreneurs at the Widyagama University done by : constructing an entrepreneurial curriculum 2 credits in class, extra-curricular of entrepreneurial competencies held by the Centre of Entrepreneurship Development (P2K/Pusat Pengembangan Kewirausahaan), follow entrepreneurial projects held by the other parties.

##### a. Develop an entrepreneurial curriculum

Entrepreneurship course is compulsory for all students from all faculties. The material provided in this course are: entrepreneurial characteristic, creative thinking, action-oriented, risk-taking, business ethics, find business opportunities, business management, bookkeeping, business planning, marketing. Implementation of an intensive study conducted by the student centered learning through various methods, including small group discussions, case studies, guest lectures by successful entrepreneurs, lab work and training.

##### b. Extra-curricular of entrepreneurial competency

The entrepreneurship development at the University of Widyagama Malang organized by the Center for Entrepreneurship Development (Pusat Pengembangan Kewirausahaan or P2K). Entrepreneurship center at university is needed because of three reasons : *first*, campus is a main gate for educated young generation to be educated employee. University become the last place to coin entrepreneur. *Second*, campus is the best place to develop human resources. Everyone come to campus has mindset to learn and improve their self quality. *Third*, campus has educated human resources and researchers, that have commitment and ability to develop the potency of young generation. Since 2005, P2K provides extra-curricular program for the student entrepreneurial competencies. Competency program objectives include to know, to do, and to be an entrepreneur. Its pattern is similar to PMW (Program Mahasiswa Wirausaha), where students acquire training materials (provisioning), apprenticeship, get capital for starting up business (entrepreneurship project) and business assistance. After finishing training program, students must join apprentice program at Small Medium Enterprises for 1 month. In the end of apprentice, students must arrange an internship report.

Besides entrepreneurial competency held by P2K, other extra curricular that able to develop entrepreneurship of students is WIGAPALA (group of nature lover). Activities of

systematic extra-curricular student is expected to build motivation and mental attitude of the entrepreneur. The students activities of nature lovers who are organized in Widyagama Pecinta Alam (WIGAPALA), also contain characters of entrepreneurship education. Members of WIGAPALA get a standard training in terms of general knowledge about the nature, personality building, and mental strengthening. They are also trained about travel management, collaboration, self esteem, climbing, night traveling and survival. Those trainings are expected to provide the students with creativities and innovations as the main energy for entrepreneurship. They may be able to prove themselves as successful entrepreneur in the community after completing their study. We have already researched to learn the entrepreneurial characters of the students at Wigapala.

An experience to organize and take part in various activities has generated a certain technical skills that are business-oriented as well. This indirectly introduce a entrepreneurial character and a practical business experience to the students. The technical skills of a nature lovers world has helped a outbound service to the community. In a activity, the student prepare a Wigapala attribute and implement procurement and administrative mechanisms independently. The technical skills in printing, crafts, and souvenirs are developed to support an organization activities and community service demand. Handicrafts and souvenirs from a natural or nuanced adventure materials has sold to market.

The experiences in any technical managerial skills successfully provide the Wigapala member with real entrepreneurial character. The experiences have made of students and alumni to be a person who has characters of hard work, independent, and self confidence. A majority of Wigapala alumni (80 percent) work in a private sector. Some of them become successful entrepreneurs.

Two prominent alumni are Edi Nurwanto and Muhammad Asruri Sham. Edi Nurwanto is a 32-year-old, owner of Liza Tour & Travel in Malang. When he started his business in 2004, he still had one car for doing travel business. Nowadays, he has a fleet of 45 various types of vehicles. The business services expand to tours and travel, airfare sales, and outbound training, generating business turnover achieve billions of rupiah per month. The business services are set out from his experience as hobby of adventure and on behalf WIGAPALA chairman in the period 2000 to 2002.

Muhammad Sham Asruri is the manager of Wonosalam Training Center, located at the foot of the mountain Anjasmoro, Wonosalam district, Jombang Regency. Wonosalam Training Center is a Resource Development Institute, which manage outbound services, backpacking, adventures, teamwork, team building and leadership. His business has been running 5 years and has involved 11,000 participants from various sites, including schools, industry or government.

#### c. Join entrepreneurial projects held by the Ministry of National Education

To fund entrepreneurial activities, P2K as entrepreneurship centre not rely on funding from the campus. P2K trying to dig up source of funds from third parties such as the Directorate general of Higher Education (Dikti) and coordinator of the private colleges (Kopertis) in East Java. Every year P2K submit proposals entrepreneurship projects organized by these institutions. The funds from such third parties will be used to grow new entrepreneurial students, for entrepreneurship training, internships, business plan competition and revolving working capital. The entrepreneurship projects have been followed by P2K of Widyagama University are

- In 2009 : student entrepreneurship program (PMW)

This program had produced four new entrepreneurs in the field of convection. Even one of them till now become successful entrepreneurs in the field.

- In 2010 : program for strengthening entrepreneurship center and national productivity (P2KPN)

The program had created 13 new entrepreneurs in the field of design and advertising, organic vegetable cultivation and culinary.

- In 2011 : grant program for strengthening entrepreneurship center

The activities included: entrepreneurship training for students, training of trainers for teachers companion entrepreneurship, strengthening entrepreneurship center workshops, study visits to other universities (University of Ciputra), study visits to SMEs. create a website entrepreneurship center ([www.widyagama.ac.id/ppk](http://www.widyagama.ac.id/ppk))

- In 2012 : student entrepreneurship program (PMW) and IbK (science and technology for entrepreneurship). This program can creates 20 new entrepreneurs in the culinary field, advertising, healthy drink soy milk, organic vegetable farming, organic catfish.

## **6. Implication**

The number of unemployed both educated and uneducated increasing every year in Indonesia. One effort to reduce the unemployment is preparing seriously for entrepreneurial generation since elementary school. It will create a young generation as the job creators, not the job seekers.

Entrepreneurship education or training in Indonesia has been supplemented into many tertiary education curriculums. But mostly the majority of the implementation still emphasizes on teacher centered not students centered, with limited number of session hours or credits. On the other hand, entrepreneurship education abroad have been implemented sophisticatedly in terms of curriculum and learning strategy, and also enhanced not only by the support and commitment from the university or college concerned, but also supported by government and private companies. Entrepreneurship education was encouraged by government for college's students have not been able to grow entrepreneurs significantly. This is because it is not easy to change the mindset of students from job seekers to job creators. Therefore, the government needs to take a role to support the growth of entrepreneurs from an early age. Entrepreneurship curriculum needs to be included in the lessons from elementary school, because it needs a long time to prepare the young entrepreneurial generation.

## **7. Conclusion**

The entrepreneurship programs at the Widyagama University have been able to grow new entrepreneurs, but not in significant numbers. It's not easy to change the mindset of students from the job seekers to the job creators. Entrepreneurship education required participatory learning methods with a focus on students through various methods, including small group discussions, case studies, guest lectures by the successful entrepreneurs, lab work and training. Organization and execution of entrepreneurship courses have ensured the availability of learning modules package and participatory learning methods and simulated, which can cause and increase student motivation for entrepreneurship.

Henceforth, in addition to cooperate with the government, the Widyagama University will also cooperate with private sectors to foster new entrepreneurs on campus.

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## **ROLE OF UNIVERSITY ENTREPRENEURSHIP CENTRES IN DEVELOPMENT OF ENTREPRENEURSHIP IN MALAYSIA**

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### **Abstract:**

Entrepreneurship as engine of growth in developing countries is considered. All governments are trying to develop entrepreneurship concept in their countries. Universities are the main custodian of the training and education of professional human resources and play a vital role in society. Therefore, attention to development of entrepreneurship through universities is important. In recent years, many universities around the world have created entrepreneurship centres, but a few articles have been written about it. This paper with review of recent and reputable resources studies necessity of development university entrepreneurship centres in Malaysia. In order to understand the extent to which the centers activities assist to growth of entrepreneurship in developing countries like Malaysia, the main advantage criteria explored.

### **Keywords:**

Entrepreneurship centers, entrepreneurial learning, universities

# UNIVERSITIES' ENTREPRENEURIAL LEARNING EXPERIENCE: PROGRESS OF ENTREPRENEURIAL CREATIVITY & INNOVATIVE OPPORTUNITY RECOGNITION

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## Abstract

**Sub Theme:** Life Long Learning & Skills Development for Sustainable Entrepreneurial Development

**Objectives:** This conceptual paper will initially evaluate university students' entrepreneurial creativity level, typologise innovative opportunity recognition and subsequently conforming whether it will be categorised under *Schumpeterian*' type of entrepreneurial idea or otherwise.

**Theoretical Background/Previous Practice:** Being a developmental module, entrepreneurship education was doubted; of whether it's able to turn graduates to become an effective entrepreneur. A question of why some individuals, though not others recognise and exploit entrepreneurial opportunities may offer great challenge for academicians to simulate its dynamism and complexity into an ideal learning experience platform comprises of both social and cultural interaction enjoyed by students

**Approach/Methods:** This research will involve collection and analysis of quantitative data obtained from sample population of universities students of both entrepreneurship and non entrepreneurship majors. There are two levels of analysis. The first analysis will test the association of theoretical framework consists of dependent variable of innovative opportunity recognition and other antecedents variables of salient beliefs; entrepreneurship education; perceived social support; perceived desirability; perceived feasibility; and types of creativity consists of artistic and scientific creativity. Secondly, cluster analysis will be performed to classify typologies of new venture ideas of students based on both entrepreneurial creativity and innovative opportunity recognition cluster.

**Results/Insights:** Among others, several gaps that link entrepreneurial creativity and innovative opportunity recognition may be discovered. The expected research findings will contribute to betterment of entrepreneurship education and training syllabi in university as main component of entrepreneurship ecosystem.

**Implications:** The research will propose relevant suggestions and recommendations for sustainable entrepreneurial development. Implications such as possible realignment of

learning process, enriching roles of educators and promoting non-formal contextual entrepreneurship will be discussed.

**Keywords:** entrepreneurialism, education, creativity, innovation

## 9. Introduction

In recent years, there is a great emphasis by the policy makers on strengthening innovation supply chain particularly at universities in bid to progress or to sustain nations' economic development. A theorem of entrepreneurial innovation is hinge upon creative individuals who can foresee and exploit economic opportunity through their bold entrepreneurial venture (Ardichvili et al., 2003). Creativity motivates the generation of ideas, considered as antecedents of innovation (Amabile et al., 1996) and gives sustainable competitive advantage in term of strategic resource that is valuable, flexible, rare, and imperfectly imitable and substitutable (Im and Workman Jr., 2004).

To develop this new generation of creative entrepreneurs; specialised entrepreneurship programmes and elective entrepreneurship subjects were taught in universities as part of initiative of universities' entrepreneurship ecosystem to all the students. The main notion is to educate and enable students in identifying and recognising innovation opportunity and instigate innovative commercial product in the market economy; which then subsequently multiplying and generating wealth to the country in the long run.

Despite proliferation of entrepreneurship education in universities and emergence of academic entrepreneurship approaches, lack of substantial evidence in the form of empirical evidence to support the perspective of entrepreneurial creativity and innovation opportunity recognition (Puhakka, 2007, Chen and Yang, 2009) especially in multidimensional perspective (Hansen et al., 2011).

This indicator demanding several justifications of presumably;

- i. the quality of entrepreneurial creativity and innovation knowledge imparted in current universities' entrepreneurship education syllabi and its direct effect towards students' perceived feasibility to be able to identify and recognise innovative new venture opportunity;
- ii. the sense of genuine belief that the prime receiver of entrepreneurship learner i.e. *university students* possessed in regards of their inner entrepreneurial creativity;

- iii. the assertive level of social and cultural support role played by entrepreneurship educators promoting and developing entrepreneurial creativity;
- iv. the current level of students' perceived desirability to identify and recognise innovative new venture opportunity;
- v. the level of artistic creativity or scientific creativity that they possessed to become entrepreneurially creative; and
- vi. ultimately their ability to recognise innovative new venture opportunity in the mould of *Schumpeterian's* entrepreneurs.

Therefore, the above problem statement and all the assumptions lead to the proposed research questions of:-

- i. Do students genuinely consider that they are in the right capacity to practise their entrepreneurial creativity attitudes?
- ii. Does the current entrepreneurship education syllabi effective in representing innovative ideas as feasible new venture ideas?
- iii. Does the current entrepreneurship social and cultural assimilation designed by entrepreneurship educators adequate to stimulate entrepreneurial creativity?
- iv. Does entrepreneurship knowledge they learned affect students in terms of their entrepreneurial creativity' self-efficacy to pursuit innovative opportunity they foresee?
- v. Do artistic creativity and/or scientific creativity affect students' objectivity in recognising the potential they identified?
- vi. Do students have the ability to recognise innovative opportunity idea and in which category the new venture creation idea can be classify?

## 10. Objectives

The main purpose of this research is to study the innovative opportunity recognition status of students in Malaysian universities.

Particularly based on the research questions above, the following research objectives are formulated in order to address the specific issues of the research:

- i. To analyse the extent to which salient beliefs influences students' attitudes towards entrepreneurial creativity.
- ii. To evaluate the effectiveness level of entrepreneurship education in increasing and developing entrepreneurial creativity of the students.
- iii. To study the effect of significant subjective norms in asserting influence of entrepreneurial creativity
- iv. To discover the level of entrepreneurial innovative self-efficacy that the students currently perceived.

- v. To assess the effect of artistic and/or scientific creativity towards students entrepreneurial creativity
- vi. To examine and confirm opportunity recognition status of students; whether they got the right kind of innovative new venture opportunity recognition or otherwise by looking at their new venture opportunity recognition position in cluster analysis model.

## **11. Literature Review**

### **i. University's Entrepreneurship Education Undertakings**

Over the last decade, universities running entrepreneurship education as part of their mainstream undergraduates' provision. This engagement is believed to be a real challenge for both universities' management and academicians because they firstly had to develop executable programmes objectives together with ideal entrepreneurial settings (social and culture) and pedagogical methods that suit the local mentality. At the end of the programme, students who have undergone such learning experiences should at least consider being self-employed.

However, there are still many debates about the effectiveness of entrepreneurship education since its development conducted primarily by academicians and not entrepreneurs themselves. According to Sexton & Bowman (1984), entrepreneurship education has to be considered as an extension of entrepreneurship itself, thus any attempt to define the former has to not deviate from the latter. Many scholars concerned with the merits, processes and challenges and demanding a creation of more effective scholar-practitioner interface (Bartunek, 2007, Pettigrew et al., 2001) especially for a multidisciplinary field like entrepreneurship education.

Likewise, there are scholars who are critical with the practice of entrepreneurship education. Firstly, Dilts & Fowler (1999) argued that only certain teaching methods (i.e. traineeships and field learning) are more successful than others at preparing students for an entrepreneurial career. Bennett (2006) found that academicians' definitions of entrepreneurship were influenced by their backgrounds and by the number of years they had worked in the business sector. Therefore, if lecturers lacked or had no experience in enterprise ownership and management, they were unable to precisely illustrate the entrepreneurship environment; and worst still, they would provide the wrong perceptions of entrepreneurship to students. Thus, the level of perceived feasibility and desirability transferred to students from academicians will be less substantial. According to Othman et al., (2006), there was not much difference in terms of personality traits including self-efficacy (a construct in perceived feasibility) between the graduate and non-graduate

entrepreneurs in urban Malaysia, thus raising more concerns about the delivery of entrepreneurship education in universities.

To conclude, Pittaway & Cope (2007) through their thematic analysis of entrepreneurship education revealed their concern on what is unclear is the extent to which such education impacts the level of graduate entrepreneurship or whether it enables graduates to become more effective entrepreneurs. This again leads to further doubt about the ability of academicians to translate the real experience of entrepreneurship in the classroom.

## ii. Impact of Social and Cultural Learning Experience in University

According to Krumboltz et al. (1976), behavioural decisions in this scope of entrepreneurial antecedents are based on social learning, and that preferring a particular career is influenced by positive and consistent reinforcement from observing significant occupational role models (e.g. family, close friends, idols) and being exposed to images related to a specific career. This perspective is relevant in terms of social learning experiences during campus life (universities) and from significant others (e.g. course mates, lecturers, tutors), who are likely to play an important role in contributing to their readiness to make vocational decisions. If students through his or her interaction have positive experiences and images of an innovative entrepreneur, he or she is assumed to be inclined to consider innovative entrepreneurial behaviour.

Meanwhile, Tomello et al., (1993) described that a person learn culturally in three ways: (1) imitative learning, (2) instructed learning and (3) collaborative learning. In university, students are exposed to learning experience provided by academicians and university management. They tend to imitate the way academicians behave, they listen and perform tasks as academicians instruct and at the same time they collaborate with people in and outside the university. The bearing of such learning will have some impact on their perception, and subsequently when they make vocational decisions.

In summation, Savickas (2002) theorised that the vital stage of students' engagement with entrepreneurship comes at the stage of "exploration", whereby their personality traits were explored rigorously with the education setting and processes. Their perception about their future employment will eventually take shape through their "expectancy" instrumentality and valence (Vroom, 1964). Once they discover their potential, they will proceed with what they believed they are good at and abandon unacceptable alternatives or "circumscription" process when they are ready to commit (Gottfredson, 2002).

### iii. Formation of Innovative Opportunity Recognition through Entrepreneurial Learning Experience

According to Bird (1988) intention to create new venture can be defined as a way of thinking that is structurally rational and intuitive resulting from: (1) social, (2) political, (3) economic, (4) personal history, (5) personality and (6) personal ability factors. Learned (1992) suggested that the formation of motive to create new venture is the result of the interaction of psychological traits and background experiences of the individual with situations that are favourable to entrepreneurship specifically in recognising opportunity.

There are many determinant factors that influence an individual to become a founder of new venture. According to Shapero & Sokol (1982), these factors are known as Entrepreneurial Intention (New Venture Formation) antecedents. Based on literature, these factors are derived from pull and push factors (Alstete, 2002, Reynolds et al., 2004) that comprises of entrepreneurial approach variables that includes traits and characteristics (Brockhaus, 1982); cognition (Lee and Venkataraman, 2006, Meyer, 2004); and demographic (Hisrich and Brush, 1985). Empirically, scholars found that these factors were carrying low explanatory power if performed in isolation (Krueger et al., 2000, Veciana et al., 2005).

A numbers of authors attempted to associate creativity and opportunity recognition in connection of founding new ventures ((Baron, 2007, DeTienne and Chandler, 2007). According to Runco (2004), there were four components that determine opportunity recognition that deserved more research undertakings namely; (1) person, (2) product, (3) process and (4) press. These factors are assumed to be influence and facilitating opportunity discovery and subsequently entrepreneurial venture creation.

### iv. Salient Beliefs & Perceived Social Support as Factors that Affecting Perceived Desirability

According to Shapero and Sokol (1982), perceived desirability refers to the degree to which a person feels an attraction towards a given behaviour. This perception is determined by cultural and social factors through their influence on the person's value system.

Salient beliefs is defined as accessible beliefs of doing something or in other words, what did the individual get from performing the object in question (Ajzen and Fishbein, 1980). Ajzen (1991) proved that individual salient behavioural beliefs concerning the object in question determine attitude and later affected intention.

Over years, many empirical studies found that common motives to become entrepreneur caused by salient beliefs such as the need for personal development, independence, financial success (Scheinberg, 1988, Shane et al., 1991, Kolvereid, 1996).

Kolvereid (1996) divided salient beliefs of an individual who wanted to become entrepreneur or employed in an organisation. Based on 250 respondents that comprised of business graduates, he identified that the important salient beliefs for individuals who aspired to become self employed were: (1) economic opportunity, (2) autonomy, (3) authority, (4) challenge, (5) self-realisation and (6) participation in the whole process. In contrary, respondents who preferred to be employed in organisation cited (1) security, (2) social environment, (3) work load, (4) avoidance of responsibility and (5) career opportunities as salient beliefs. Tkachev & Kolvereid (1999), follow-up study revealed that the most strongly associated salient beliefs with entrepreneurial intention in Russia were autonomy, authority, self-realisation and economic opportunity.

Nonetheless, there were also scholars who challenged the above proposition. Carter & Ram (2003) argued that “reasons for individuals for getting into business matter, because reasons are considered as the fundamental of intentions.” Thus reasons should affect intention directly. However, based on the literature, there were no empirical studies that prove this relationship is a factor in isolation possessing high explanatory power.

Meanwhile, perceived social support can be defined as a degree of perception of what important others think of the behaviour in question (becoming entrepreneur), According to Shapero and Sokol (1982), perceived social support from important others places a high value on entrepreneurship culture and will tend to encourage individuals to form favourable perceptions of desirability. Consequently, perceived social support opposed to entrepreneurship will create unfavourable perceptions of desirability.

There were several discussions regarding the significance of perceived social support in determining entrepreneurial intention. March (1988) theorised that subjective (social) support provide the guidelines for what is regarded as desirable behaviour in a culture. Decisions are embedded in perceived social support. For example, if the norm is that of a person with a graduate qualification seeks employment in a large firm or public

organisation to climb the career ladder rather than start their own business, it is obvious that starting a firm will not be considered an opportunity, but most likely something that occurs as an alternative or contingency plan. This argument is supported by Bryant & Bryant's (1998) finding that perceived social support in a community change what is more likely to be seen as an opportunity by an individual.

Empirical results of the perceived social support variable towards entrepreneurial intention are generally mixed.

On one side, it is proven to be an important variable (Kolvereid, 1996, Krueger, 1993). One possible reason for this situation may be due to individuals' naiveties. Therefore, the opinions of parents, partners, friends, and important others may be influential in this process (Gelderen et al., 2006). Grundstén (2004) found there was a significant link between perceived social pressure and entrepreneurial intentions.

In contrast, the perceived social support variable was also found to not be a reliable predictor to an entrepreneurial intention. Scholten et al., (2004) found out that it played only a marginal role in his logistic regression model. He found only individuals that experience a positive view on entrepreneurship amongst their immediate contacts is associated with the intention of entrepreneurship. Krueger et al., (2000) held that perceived social pressure is less predictive of intentions for individuals who have a high internal locus of control. Basu & Virick (2008) discovered that there were no significant differences between the perceived social support of those who had prior exposure to entrepreneurship education and prior experience in entrepreneurship. Overall, he held that students are less influenced by perceived social support about entrepreneurship.

#### v. Entrepreneurship Education as Factor Affecting Perceived Desirability

Bechard and Toulouse (1998) defined it "as a collection of formalised teachings that informs trains and educates anyone interested in participating in socio-economic development through a project to promote entrepreneurship awareness, business creation, or small business development." Souitaris et al., (2007) conceptualised good entrepreneurship programmes by suggesting balanced, 'good practice' programmes grouped under four components: (1) a taught component, (2) a business planning component, (3) an interaction practice component, and (4) university support component.

Over years, various studies were conducted in universities to determine the effectiveness of entrepreneurship education towards students. Lüthje & Franke (2003) underlined the importance of contextual factors in the university environment which (i) play a role in facilitating the occurrence and the intensity of entrepreneurial behaviours and (ii) orientations and behaviours of students are influenced by internal and external factors. Varela & Jimenez (2001) study confirmed that the more universities invest in entrepreneurship education, the higher the entrepreneurship rates. This is due to the fact that education enhances variables like self-efficacy, need of achievements, locus of control, and the likelihood of action at some point in the future (Davidsson, 1995, De Noble et al., 1999, Wilson et al., 2007) because educational settings appear to be the fertile ground for the development of perceived feasibility. Krueger & Carsrud (1993) found that training programmes can have an impact on the antecedents of intention identified, which includes perceived feasibility. They found that perceived feasibility is influenced by the acquisition of management tools and exposure to entrepreneurial situations. Moreover, Noel (2001) identified that entrepreneurship education affects propensity to act as an entrepreneur, entrepreneurial intention and entrepreneurial feasibility.

However, there are doubts that academicians are able to demonstrate effective techniques in teaching entrepreneurship (Brockhaus, 2001). According to Fiet (2000), the question of whether entrepreneurship can be taught will always be present especially on the practicality of techniques in teaching. This question may have its validity because methods for teaching entrepreneurship have varied extensively (Porter, 1994) and the most employed pedagogical methods were comprised of lectures and case studies (Ahiarah, 1989). Despite suggestion by scholars to include numerous pedagogical methods like hands-on experience, real world projects and learning by doing situations (McMullan and Long, 1987); behavioral simulations (Gibb, 1993a, Stumpf et al., 1991); technology-based simulations (Hindle, 2002); video role plays (Robertson and Collins, 2003), the challenges are shouldered by academicians. Academicians must become a learning process facilitator who is able to use role-play, management simulations, structured exercise or hands-on projects (Alberti et al., 2004) in order to deliver entrepreneurship knowledge to students. This entire requirement and responsibility of academicians may not be achievable given the short duration of the programme and lack of financial resources.

#### vi. Types of creativity and Perceived Feasibility

Entrepreneurship academia in agreement that creativity is related to entrepreneurship because creativity facilitates the process of identifying new opportunities (Shane, 2003). In general, creativity can be defined as the generation of novel and useful ideas (Hennessey and Amabile, 2010). Nevertheless, a refined examination of creativity in the

opportunity identification development is inadequate especially dealing with types of creativity i.e. artistic and scientific creativity (Yusuf, 2009, Sawyer, 2012) and the impacts towards viable innovation. Some scholars suggesting the process of divergent and convergent thinking (Hennessey and Amabile, 2010) and some scholars theorised cognitive approaches to creativity as the most natural antecedent of innovative entrepreneurship element (Ward, 2004). With assumption that by possessing the most generation of novel and useful ideas of either/ or combination of artistic and scientific creativity, the higher the perceived feasibility of having innovative opportunity recognition entrepreneurial idea.

## **12. Methods**

This proposed research aims is to study the innovative opportunity recognition status of students in Malaysian universities. As such the proposed research is arranged in the following order: (i) development of variables and theoretical research framework, (ii) the development of research propositions, (iii) the development of research design, (iv) measurement of variables, (v) data collection methods and (vi) data analysis

### **i. Development of Variables & Theoretical Research Framework**

Firstly, Theory of Entrepreneurial Event by Shapero (1982) will be used as the foundation of theoretical framework. The variables that formed the theoretical frameworks are:-

- a. Dependent Variable - Innovative Opportunity Recognition
- b. Independent Variables - Salient Beliefs, Perceived Social Support, Entrepreneurship Education, Perceived Desirability, Perceived Feasibility and Types of Creativity

In second part, cluster analysis will be performed based on model of new venture typology developed by Chen & Yang (2009)

### **ii. The Development of Research Propositions**

In this section, relevant research propositions will be develops based on research objectives. Among the propositions are namely;

RP<sub>1</sub>: There are positive relationship between salient beliefs and perceived desirability

RP<sub>2</sub>: There is positive relationship between entrepreneurship education and perceived feasibility

RP<sub>3</sub>: There is significant effect of perceived social support towards perceived desirability

RP<sub>4</sub>: There is significant effect of perceived feasibility towards innovative entrepreneurial opportunity recognition

RP<sub>5</sub>: There is significant difference of artistic and/or scientific creativity towards perceived feasibility.

RP<sub>6</sub>: There is confirmation that the students opportunity recognition status matched with ideal Schumpeterian innovative new venture

### iii. The Development of Research Design

It is proposed that the research will involve a quantitative study focusing on final year students from selected universities. The students will comprise of students who are majoring in entrepreneurship and non-entrepreneurship students from various majoring (Engineering, Information Technology, Social Science, etc)

The questionnaire and its scaling were developed and modified based on validated and reliable existing empirical studies carried out by various scholars. The possible validity testing of face, content and construct and reliability testing will be performed during the pilot study stage.

### iv. Measurement of Variables

A questionnaire would employ a *likert scale* that measures the construct in terms of what the participant believes. Participants are asked to self-assess on questions using a 4-point Likert type scale.

Variables would be subjected to significance testing using applicable computer software such as SPSS or AMOS.

#### v. Data Collection

It is proposed that the method of data collection will consist of three (3) ways:-

- a. Personally administered questionnaires
- b. Appoint respective enumerators
- c. E-mail questionnaires correspondents

#### vi. Analyses of Data

As for types of analysis that will be performed, four (4) analyses are proposed:-

- a. Demographic Profiles
- b. Descriptive Analysis
- c. Goodness (Reliability) Analysis
- d. Hypotheses Testing Analysis ( Correlation, Regression)
- e. Cluster Analysis

### **13. Expected Findings & Implications**

The significance of the findings of this research is first and foremost to answer the call of researchers in the entrepreneurship academia for a better understanding of the birth or launching of new entrepreneurial ventures or firms by the students (Souitaris et al., 2007, Zainuddin and Ismail, 2011) especially the new generation of learners (Zainuddin and Mohd Rejab, 2010) in order to pave way for more sustainable entrepreneurial development undertakings

By understanding the process involved in the launch of new entrepreneurial ventures, it will help understand the variables of the potential entrepreneurs and take the steps to manipulate them especially on the opportunity search and business idea creation (Heinonen and Ulla Hytti, 2011). As a result, this will contribute to the betterment of entrepreneurship education, policies and culturalisation.

The potential implications of the study can be proposed into a synergistic top and bottom tiers of holistic (philosophy and policy) and specific (pedagogy and practice) approaches. (Refer Fig.1)

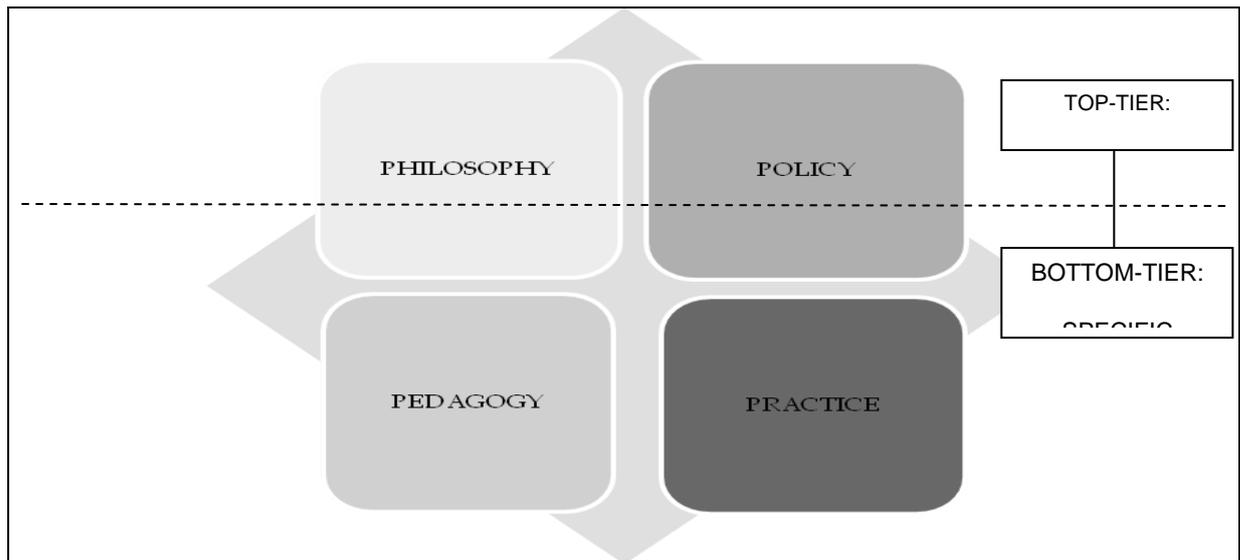


Figure 1: Synergistic Top-Bottom Tier Approach Model

i. Philosophy

In general, scholars found that the current entrepreneurship education philosophy embraced by universities were inconclusive. As a multidisciplinary subject, the major challenges facing by university's academicians amongst others are; (1) an urgent need to shift their paradigm from providing instructions (the teaching paradigm) to providing learning (the learning paradigm) and emphasises on educational processes which actively engages students in the learning and a learning environment which cares for the learners (Fink, 2003); (2) difficulty to integrate and explain fully the different traditional social science disciplinary perspectives; economic, sociological, psychological and anthropological to the students effectively into a single platform (Gibb, 2005); (3) there were lack efforts in reviewing at the philosophical, theoretical and normative links that linked entrepreneurship education and education science as part of entrepreneurial culture. As a result, three education preoccupations remain under addressed namely social cognitive, psycho-cognitive and ethical theories (Bechard and Gregoire, 2005); and (4) there was a dominant pattern that entrepreneurship education has been based on an individual-centred mindset, that resulted in a strategy that aims to give general education to individuals on how to become entrepreneurs, missing the other ingredient of know-who element completely (Laukkanen, 2000). As a result, the tasks of academicians extracting suitable theories, designing syllabi and later deliver entrepreneurship education to the students becoming very enormous indeed.

In relation to inconclusive philosophy, the relevant strategic implications should be considered:

- a. In order to expedite the transition from the teaching paradigm to learning paradigm, universities need to transform their role of being a real incubator for students by gathering resources to provide experienced entrepreneurship education's academicians from both the industry and academia that are capable to expose students with what they can expect from the world of entrepreneurship.
- b. It is vital to change the current intellectual learning philosophy in the university from “produce” and “perform,” to “pause” and “reflect” (Cherwitz and Sullivan, 2002). Universities need to make space for students to contemplate their personal, professional and intellectual identities based on the experience they acquire; the kind of reflection that can yield sustained productivity and satisfaction in the long run. By doing so, universities can simulate the real entrepreneur world of tacit knowledge and heuristics judgment.
- c. In addition, universities need to introduce trajectory of “discovery-ownership-accountability” (Cherwitz and Hurtado, 2007, Shaver and Scott, 1991). From the outset, students are encouraged to discover their personal, intellectual, and professional interests and to make explicit and thoughtful connections amongst these goals. Perhaps the adult learning philosophy (Hannon, 2005b) that provides the foundation for reflection and analysis of current approaches against philosophical beliefs, through discussion about the potential contrasts and conflicts, between underpinning foundations and purpose-in-action can be a good blueprint.

ii. Policy

Meanwhile, the most obvious critic singled out to universities regarding entrepreneurship education is pertaining to the choice of location to deliver its entrepreneurship education (McMullan and Long, 1987, Birch, 2004, Solomon, 2007).

Not only are business school profoundly associated with entrepreneurship education but according to Gibb (2007), what is more challenging is that business schools have been urged by many of universities to actually capture the entrepreneurship education phenomenon and attempt to deal with it within the conventional (and largely corporate business) ways to organise this explicit knowledge. In fact, this viewed already echoed before by Birch (2004) as:-

*“Quite a few business schools teach you exactly the opposite of entrepreneurship. They teach you to do the quarterly numbers for Wall Street, teach you to conserve, teach all the wrong motivations for being an entrepreneur, teach you to take something that is there and make certain that it does well on Wall Street. Basically, business schools teach you to work for somebody”*

The initial policy of placing entrepreneurship education in business schools has resulted the teaching of entrepreneurship to be essentially derived from a corporate model which values order, formality, transparency, control, accountability, information processing, planning, rational decision making, clear demarcation, responsibilities and definitions (Gibb, 2005). By adopting business organisation style of learning, limited enterprise culture is created because such a culture will have to embrace all types of organisations that should include stakeholders and wider social community. The ideal policy should revolve in wider contextual relevance stimulation of an 'enterprise culture' in society wide variety of different initiatives and programmes covering such diverse areas as financial literacy, industrial understanding, economic awareness, business education, small business education, business start up and personal transferable skills (Gibb and Cotton, 1998).

Based on various issue discovered, some related strategic implications are:

- a. A radical yet practical approach is to separate entrepreneurship education initiatives from business schools by creating a unique entrepreneurship centre parked under a strategic division that oversees the entrepreneurship development activities at faculties, including Engineering, IT, Humanity, Arts and others (Hindle, 2007).
- b. Adaptation to changes in a multidisciplinary area requires continuous and frequent adjustments to what people do and how people do it (Lüsher and Lewis, 2008) and this requires the university management to embrace the Learning Organisation policies.
- c. There needs to be less emphasis on organisational structure and concurrently emphasis on systems for facilitating and implementing change. By having a flexible, organic structure and system, a university's management will be more receptive to adopt and manage new technologies, especially ICT, due to less cumbersome procedures and rules that they have to adhere to (Gephart et al., 1996) and it is considered as the primary condition influencing a university's ability to acquire new knowledge (Kang and Snell, 2009).
- d. Take attention and action of growing literature that emphasises on the effectiveness and the roles of mentors and professional people that influence students (Turker and Selcuk, 2009), thus university management should practise flexible staffing and appointment policies (Gibb, 2005). This can be done by including professorships of practice, adjunct professors, fellowship secondments for members of the stakeholder community, and visiting entrepreneur teaching fellowships to increase the pool of experts. Students will become more respectful and interested to acquire knowledge from well known experts. Next, educators should be allowed to take sabbatical leave and attend industrial attachment to oversee the development of entrepreneurship practices in the industry and for the educators (Omar and Mohamed, 2009) to adapt and upgrade them to become specialist mentors. Besides, educators should be given time flexibility to serve three pillars of academic enterprise of teaching, research and outreach; therefore they will become mutually complementary with students' expectations (Carayannis, 2009).
- e. There should be more research and development with small firms, larger corporations and government agencies. These parties can contribute grants for entrepreneurship

practicum and students' consulting project. At the same time, they can absorb successful student entrepreneurs into their organisation as intrapreneurs.

### iii. Pedagogy

In terms of entrepreneurship education's pedagogy, it can be argued that currently it will be minimal issue of whether entrepreneurship can be taught or not, since it was proven it can (Kuratko, 2005, Henry et al., 2005). However there are three pressing issues involving pedagogy; (1) how should the academician teach entrepreneurship? (2) does the conventional business style works in exposing students to entrepreneurship? and (3) how the perception of academicians regarding the nature of entrepreneurship can influence their pedagogy style?

In the first issue, earlier on, Davies and Gibb (1991) argued that adoption of traditional education methods which focus mainly on theory and didactic approach were not significant in teaching entrepreneurship. Gibb (2007) cautioned that in most entrepreneurship educations, it seems like the dominant teaching methods are lectures, cases, projects and entrepreneur/stakeholder presentations, which may or may not be delivered in a manner designed to stimulate entrepreneurial behaviour; these teaching methods can be an anti-entrepreneurial mode because usually it was delivered in the confinement of classroom (Shepherd and Douglas, 1996). Earlier, Gibb (1993b) classified what are the major differences between business school learning focus and entrepreneurship education/learning focus (Refer Table 1.2 below). Later, according to Hisrich and Peters (1998) there are three components of skills to be cover in entrepreneurship education pedagogical aspects namely technical, business management and personal entrepreneurial skills.

Meanwhile, in relation to second issue, most entrepreneurship courses are focused upon business and business concepts. According to Gibb (2005, 2007), the concepts are hard to resist that even when they are applied to non-business situations, for example, medical practitioners, schools, health services, social and community services, and even local government, it is generally business principles that are taught. Most business school programmes embrace the conventional project piece of work, usually towards the end of a core plus modular course. This may be undertaken on a group or individual basis and may take the form of a case study, a somewhat disguised consultancy (with academic references) or the exploration of an academic concept in a small (often growing) business context. The context is dominantly that of business, the culture is that of corporate business, the pedagogical range used is narrow and over-focused upon cases.

A fine example is the usage of business plan as the central learning tool in entrepreneurship education (Solomon, 2007, Hills, 1988). What can be transpiring here is that yet there is little evidence that the notion of a plan is derived from entrepreneurial practice (invented by entrepreneurs). The overall problem therefore in giving the business plan a central place is that it creates the wrong metaphor for entrepreneurship. As with all instruments, however, it depends upon how it is used: but it cannot be a substitute for, and indeed should not form a barrier to, plunging into the waters of customer/stakeholder needs and demands and learning to adapt quickly to this experience (Gibb, 2007).

Finally, According to Bennett (2006), there was a positive relationship between the types pedagogy subscribed by academicians and their perception of the nature of entrepreneurship. Thus, it leads to different styles of pedagogy employed by academicians in delivering entrepreneurship education. As an example, for academicians with business experience prior to joining universities, he or she may employ more real business approaches pedagogy and for those who are not, then learning may be focused more on case studies and problem solving the classroom.

| <b>University/Business School Learning Focus</b>                        | <b>Entrepreneurial Education/ Training Learning Focus</b>                    |
|---|--|
| Critical judgement after analysis of large amounts of information       | “Gut feel” decision making with limited information                          |
| Understanding and recalling the information itself                      | Understanding the values of those who transmit and filter information        |
| Assuming goals away   | Recognise the widely varied goals of others                                  |
| Seeking (impersonally) to verify absolute truth by study of information | Making decisions on the basis of judgement of trust and competence of people |
| Understanding basic principles of society in the metaphysical sense     | Seeking to apply and adjust in practise to basic principles of society       |
| Seeking the correct answer with time to do it.                          | Developing the most appropriate solution under pressure                      |
| Learning in the classroom   | Learning while and through doing   |
| Gleaning information from experts                                       | Gleaning information personally from any and everywhere, and                 |

|  |  |
|--|--|
| and authoritative sources  | weighting it   |
| Evaluation through written assessment                            | Evaluation by judgement of people and events through direct feedback |
| Success in learning measured by knowledge-based examination pass | Success in learning by solving problems and learning from failure.   |

Table 1.1: Gibb (1993) University Business School versus Entrepreneurial Education/Training Focus

From all the issues above, we can observe that current entrepreneurship education's pedagogy is a functional rather than a relationship/development stage organisation of the knowledge base. There is little evidence overall that project work is specifically designed to enhance the entrepreneurial capacity and disposition of students rather than to follow the business techniques (know-how). Therefore, amongst the implications are:

- a. Academicians should teach entrepreneurship through learning focus that is upon 'know how' and 'need to know' rather than functional expertise. The 'need to know' stems from the development problems and opportunities of the business. The challenge to academician is therefore to organise knowledge around organisation development processes, radically different from the conventional functional paradigms. In guiding them to the survival of a business in the early years, the target might, for example, be to anticipate the problems that lead to business failure and 'bring forward' the knowledge in such a way as to enable entrepreneurs to anticipate development problems before they occur and take remedial action. Bear in mind that such a problem-centered approach does not mean that conceptual analysis is sacrificed but only that concept is led by problem. Teaching focus should include action learning, problem-based learning and discovery teaching to develop entrepreneurial-focused students (Richardson and Hynes, 2008)
- b. Furthermore, one of the ways to instil entrepreneurship knowledge is through non-conventional way of students' consulting project (Heriot et al., 2008) through social enterprise chapters like Students in Free Enterprise (SIFE) [www.sife.org](http://www.sife.org) . This approach will somehow provide macro experiential learning (Wani et al., 2004) that not just affects their cognitive learning but also affective learning too. According to Kolb and Kolb (2005), by engaging students through experiential learning students can learn through feedback, conflict, differences, and disagreements that draw out their beliefs and ideas about a topic through holistic process that encompasses a person's cognition, thinking, feeling, perceiving, and behaving.
- c. In addition, there is a need to shift academic roles from "the sage on stage" to "a guide on the side," (Hannon, 2005a). Anderson (2003) proposed entrepreneurship education and meaningful formal learning, supporting one of the three forms of

interaction (i.e. student–teacher; student-student; student-content interactions) at a high level. The other two may be offered at minimal levels, or even eliminated, without degrading the educational experience. High levels of more than one of these three modes will likely provide a more satisfying educational experience, though these experiences may not be as cost or timely effective as less interactive learning sequences.

#### iv. Practices

According to Gibb (2007), much of entrepreneurial learning takes place by processes of trial and error and subsequent incremental improvement. However, there seems little room in much of the academic curriculum of universities' for learning to do (and about) something by a process of repeated practice. This is due to the fact that entrepreneurs seek knowledge on a “need to know,” “know how” and “know who” basis rather than just merely the “know how” basis. All these three element of knowledge will bring forwards recognisable contextual experience to them and helps them to conceptualise and give broader meaning to their existing problems and opportunities. Therefore, there is a need to distinguish teaching concerning the phenomenon itself (the vocational domain) from teaching *about* the phenomenon (its meta aspects; its theory and the way that this phenomenon impacts on other phenomena). In addition, entrepreneurship practice coalesce a variety of roles, each demanding different skills, knowledge and capabilities (Anderson and Jack, 2008), thus there is a requirement to enable that process through some sort of integration. Thus, the suggested implications are the following:

- a. An increased focus on the context and learning by doing implies greater student involvement during the study. Involving the students in working on real business cases could range from case-based teaching, to involving the students in real start-ups and finally by letting the students start their own company. In addition to the degree of individual involvement from the students, the nature of the opportunity or business idea is important in entrepreneurship (Shane, 2003).
- b. The students could work on projects ranging from practical exercises which do not have any business potential, to real business projects with limited potential (e.g. regional scope), and finally high-potential global business ideas. Erikson and Gjellan, 2003;Johannisson et al., 2001

## 14. Concluding Observations

The study provides an important analysis of the state of Malaysian universities' with regards to entrepreneurship education delivery and effect of entrepreneurial creativity towards innovative opportunity recognition.

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# III. ENTREPRENEURSHIP, INNOVATION AND SOCIAL RESPONSIBILITY



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## MALAYSIAN TECHNOPRENEURSHIP IN THE GLOBALISED WORLD – CHALLENGES AND THE WAY FORWARD

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### Abstract

**Objectives:** As a practising Technopreneur Programme Developer, the author hopes to learn and share the knowledge and experience as well as the latest development in technopreneurship with other practitioners and researchers and to forge collaboration in this field both at the national and international levels.

**Theoretical Background/Previous Practice:** The author has been developing a Technopreneurship development Programme since 2005. For the last 28 years, she has been practising as a career guidance counsellor/consultant, including researching, writing and publishing the leading Malaysian bilingual (English & Chinese language) higher education and career guidebook on Malaysia and 10 other countries. She has been a regular writer, columnist, script writer for the leading press, radio and other broadcasting media in Malaysia, covering career guidance, technopreneurship, English language learning, public understanding of Science & Technology and Invention and Innovation, having played a pioneering role in many of them. She is also the contributor to the ASEM Education Newsletter, based in Bonn, Germany

**Approach/Methods:** Technopreneurship development in Malaysia has been influenced by various factors, among others, public policies, the importance placed by the public especially students, parents and teachers on career in Science, the link between academia and business as well as entrepreneurship spirit among the educated and intellectuals.

The paper gives an account and analysis of recent development of the above and the challenges ahead. It also delves on development of innovative culture in Malaysia.

On the way forward, there is a need for greater co-operation among the stakeholders of technopreneurship development in Malaysia as well as awareness on ethics and social responsibility among aspiring technopreneurship. The paper presents examples of social responsibilities shouldered by Malaysian early entrepreneurs and their contribution to society.



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The author has developed an innovative Technopreneurship development programme where a tripartite team of technology parks, Science and Technology learned academia/societies and chambers of commerce of international companies based in Malaysia has been formed to establish an ecosystem to nurture technopreneurs.

The programme inculcates interest in technopreneurship among educated and intellectuals including undergraduates and postgraduates through public awareness exercise and career guidance service, traineeship and internship via seminars and at international companies as well as incubatee and networking services.

**Results/Insights:** The author would have engaged with practitioners and centres of entrepreneur development around the world and be working with some of them with the possibility of forming a Young Technopreneur Club of Malaysia or at the ASEAN or ASEM level. She is currently engaged with the ASEM Education Process (<http://www.asem-education-secretariat.org>). One of its programmes is an annual University-Business Collaboration Forum.

**Implications:** Malaysia is at the crossroad of national economic and industrial development. To build the hi-tech industrial base and high income economy as envisaged by the Malaysian government, it is essential that it be built upon the educated and intellectual of the nation, that is, the undergraduates and postgraduates as well as the professionals. The author, through the above Programme, endeavours to set the impetus to the economic development using Science & Technology.

**Keywords:** Technopreneurship, innovation, ecosystem, talent, responsibility.



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## **THE IMPACT OF COMMUNITY FINANCING ON SMALL ENTREPRENEURS' IN KADUNA-NIGERIA.**

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### **Social and Community Enterprise.**

Small businesses produce their goods and services in different communities in which it develops the community in one way or the other. The study is based on sources of SME finances for businesses start-up and businesses expansion/ growth that is initiated and managed by communities. Previous researches undertaken by Zainab(2011), Chentu,(2009), Okoye,(2006) assessed SME's financing through banks and government strategic schemes to be poor but rather finances through informal sources of to be more encouraging and good (examples of such finance aids are either from self-savings or from family and friends contributions/loans). The aim of the study is to assess the informal institutions initiated by communities known as co-operative societies. These are known associations that inculcate savings culture and assist in granting loan to the participants of the scheme. The research used both primary and secondary sources of data collection. Samples were collected from 15 with cooperative societies in the communities of the state in which 125 small business entrepreneurs were captured. The analysis of variance technique(ANOVA) which compares the variances from the two sources of data collected was used in order to assess the preference between the formal and informal (cooperative societies) financing options. Results from findings shows that the small business entrepreneurs are very aware of formal financing options and government schemes for promoting their growth of this sub-sector but without patronage of the options and schemes. Based, on the study it is likely that these entrepreneurs are very reluctant in assessing the formal sources of finance rather they small and medium entrepreneurs prefer cooperative society's scheme. On the other hand cooperative societies are not capable to meet the needs of all the participants at the same time. They only take turns to deliver grants and requests. Therefore, the formal sources of finance (banks and government) designed policy schemes that will promote and develop them



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should stretch out (with soften conditions) to these communities, since their productivity is a prime mover of economic growth and advancement. Not attending to their primary needs can hinder the growth and development of that community which affects the state in which the dwell and thereby affecting the country at large.

Keywords: Communities, Small businesses, Entrepreneurs, Cooperative societies, finance.

A small scale business can generally be referred to as a firm that is independently owned and operated and which is not dominant in its field of operation Olokoyo,(1998). Although small scale business have great role to play in the developmental process of an economy, they are set to be among the drivers of the economy since most practitioners of such businesses come from that sector of the economy. They are responsible for between 60-70% net job creations in OECD countries. Small businesses are particularly important for bringing innovative products or techniques to the market. Forming small businesses are term to be easy but their sustainability is a challenge especially by the inability to finance their operations.

Finance has been identified in various business surveys as one of the most important factor that determine the survival and growth of small and medium scale enterprises [SMEs] in both developing and developed countries UNCTAD,( 2001). The importance of finance in any profit or non-profit organisation is the key role it plays in the success of any company and access to it thus becomes a great concern to many who intend to tread the paths of the enterprising world. The general sources of finance for SMEs include: Banks, institutional investors, life- saving, cooperative societies initiated within the communities, friends and families.

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major instrument in promoting private sector development and partnership. The development of SME's is therefore an essential element in the growth strategy of most economies and holds particular significance to Nigeria. They not only contribute significantly to the upliftment of living standards, but they also bring about substantial local capital formation and achieve high levels of productivity and capability. This had made the subsector as being recognized as the principal means for achieving equitable and sustainable industrial diversification and dispersal



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Despite their size, they contribute as low as one percent to Gross Domestic Products (GDP) to the country in contrast to countries like Indonesia, Thailand and India Where they contribute almost 40% (Sanda *et al*, 2006). The low contribution in the country is linked to various factors such as lack of managerial capability, poor governance practice, poor managerial talent, legal and regulation weaknesses and financial constraints among others Oguntoye, (1997).

Problems associated with SME's and reasons for their failure have been widely identified David and Nyong (1992) according to them includes lack of planning, inimical government rules and regulations, poor marketing strategy, lack of technical know-how, and higher interest rates Aftab and Rahim, 1989, Ekpenyong 1983, Akamiokor, 1983)

SMEs often have a vested interest in community development. Being local, they draw upon the community for their work force and rely on it to do business. For the communities, they provide goods and services tailored to local needs and at costs affordable to local people. They are an important source of employment, particularly for low-skilled workers, as well as women and young people, who usually make up the greatest proportion of the unemployed in emerging economies. Their flat management structures mean that their personnel must fulfil multiple roles, which makes them less vulnerable to unemployment during periods of economic downturn. Their small size and flexibility allow them to adjust to local market fluctuations and to weather local market shocks more comfortably.

Zainab, (2011) views that there is the need to protect and increase the longevity of SME's which lies under the umbrella of the government. Pointing out efforts which should be made to enlighten the entrepreneurs on the various policies which are designed to cater for their needs, and which are intended programs to make their business practically viable.

Small and medium businesses are generally regarded by creditors and investors in Nigeria as high-risk borrowers due to insufficient assets, low capitalization, high death/mortality rates and a lack of a clear plan of action and feasibility study of the business intended to be undertaken in order to ascertain its profitability forecasts and expected financial position and expertise to convince lenders that one can utilize the funds properly and thus be able to pay back in due time.

A very high interest rate and general transaction cost which prohibits the businesses from being able to plough back any profit at all back into the business as most of their returns have been plunged into the abyss of settling debts due and servicing there associated interest payments.



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The above problems portend a situation whereby it is so difficult to approach commercial banks which have the bulk of the funds to lend, to obtain finance for small-scale businesses. These problems therefore call for alternative source of finance for small scale businesses.

The objective of the study is to assess the impact of contributions of the cooperative society's financing aid to the small entrepreneurs of the communities and the extent to which the cooperative societies financing options of community's contributions added to the growth and development of Small and Medium Entrepreneurs' in Kaduna State. The problem that will be identified by the study is what are the obstacles faced in accessing the community financing of small and medium entrepreneurs through the cooperative societies initiated and which are being managed by the communities. Also the study seeks to identify the salient issues in the use of Co-operative Societies as a means of financing small-scale Entrepreneurs in Kaduna State of Nigeria.

The study will test the hypothesis that community based cooperative societies' financing have no significant impact on small and medium entrepreneurs in Kaduna state.

Financing small-scale businesses in the country is a vital subject of discussion this is because their importance to the economy cannot be overemphasized. Hence, this study has both policy and academic significance. It will be significant to the following groups: Economic planners and government agencies concerned with the facilitation of small-scale business growth in Plateau state and Nigeria. The Co-operative Society under study, the members of the Co-operative Society, future researchers, the general public and this researcher.

The scope of the study will cover from 2007- 2011. This was the period that the Nigerian Financial system had witnessed a landmark of reformation process. So many initiations and innovative strategies on the part of governmental polices had been advocated for implementation.

The study will significant to the government at all levels(both at state and federal levels) immensely as it will bring out contemporary issues on how Cooperative Societies in the communities can be used as means of financing small and medium enterprises. It would provide avenues for government agencies such as small and medium scale Enterprises Development Agency of Nigeria (SMEDAN) to know how to strengthen these societies in order for them to provide their members required funds to set up businesses that will in turn boost the country's economy.

The paper is divided into five sections. The first section is the background of the study, while the second section revised on literatures of small entrepreneurs' of past researches and



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contributors of related write-ups. The third section states the methods and methodology adopted in the study while the fourth section draws out the findings and discussion on the study. The last part of the paper draws out the conclusions and proffers recommendations on the study.

## 2.0 Literature review.

According to Olokoyo (1998) the history of indigenous business in Nigeria is the history of the small-and medium enterprise. Small independent businesses are everywhere and in every line of work. The entrepreneurship challenges drive some Nigerians to go into small business, Olokoyo ,(1998) and Oshagbemi,(1983).

Entrepreneurship which is a term used broadly in connections with the innovative modern industrial leader (Schumpeter 1961) has contributed to the development of small business in Nigeria because small businesses are usually owned by one or two persons who perceive the business opportunities and take advantage of scarce resources to use them coupled with the underlying risks involved. As Boswell (1973) views regarding developed countries, generally and particularly those countries where there has been rapid urbanization, a conspicuous and pervasive phenomenon has been the increasing importance of the small-scale enterprise.

As observed by Aladekomo (1999), the salvation of developing countries, such as Nigeria, lies heavily in the development of entrepreneurial abilities and opportunities at all levels, including very large, large, medium, small and very small enterprises. Fry (1993) noted that in the United States of America, small businesses account for 85% of all businesses.

Two decades ago Oshagbemi (1983) remarked that there were thousands of enterprises in Nigeria which fell into small and medium enterprises. They included weaving, carpentry, pottery and ceramics, farming, fishing, piggery and animal husbandry, poultry, wood and metal works, retail trade, tailoring and dressmaking; mechanic and repair workshops, brick and block-making and transportation, etc. In recent times however, the enterprise structure of small businesses in Nigeria has evolved to include Information technology and telecommunication, Educational Establishment, Tourism and Leisure, Solid Mineral Exploitation, manufacturing and construction (Akabueze, 2002).

## **CONCEPT OF SMALL AND MEDIUM ENTERPRISES.**



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There is no universal definition for small scale business globally and specifically Africa Beyene(2002). The definition varies from country to country and changes from time to time depending on economic fortunes of the country. In Nigeria, the Bankers Committee ( which constitutes bankers representatives and the Central Bank of Nigeria ) at their 246<sup>th</sup> meeting on December 21, 1999 came up with a scheme themed the Small and Medium Industries Equity Investment Scheme ( SMEIS ). The scheme commenced implementation in 2001. It defined a small / medium enterprise to be one of whose maximum asset base is not above N500 million excluding land and working capital; with the number of staff employed by the enterprise not less than ten ( 10 ) and not more than three hundred ( 300 ). In a review of this scheme was made in March 2010 by the Central Bank of Nigeria to be Small and Medium Enterprises credit guarantee scheme for promoting access to credit by SME's in Nigeria. The objectives include fast tracking the development of the manufacturing SME subsector of the Nigerian economy by providing guarantee for credit from banks to SME's and manufacturers, increase the accessibility to credit by promoters of SME's and Manufacturers, which will increase output, generate employment, diversity the revenue base, increase foreign exchange earnings and provide inputs for the industrial sector on a sustainable basis.

Other common features of Nigeria's SMEs apart of finance include the following:-

1. Labour intensive production processes
2. Concentration of management on the key man.
3. Limited access to long term funds.
4. High mortality rate especially within their first two years.
5. Poor inter and intra-sectorial linkages – hence they hardly enjoy economies of scale benefits.
6. Poor managerial skills due to their inability to pay skilled labour.
7. Absence of Research and Development.
8. Little or no training and development for their staff.
9. Lack of code of governance.
10. Lack of adequate financial record keeping.
11. High production costs due to inadequate infrastructure and wastages.
12. Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage.
13. Lack of access to international market.
14. Poor access to vital information.



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Basil,(2005), Olokoyo,(1993) views small enterprises as self- initiated, largely self-financed, closely self -managed and is of relatively small sized when considered as part of the industry.

### **Role of small an scale businesses in the Nigerian economy**

SME's are believed to be the engine room for the development, because they form the bulk of business activities in a growing economy like that of Nigeria Akabueze,(2002). This is manifested in the following ways:

**Employment Generation:** Small and Medium scale enterprises constitute 30% contribution to global GDP. They have an employment generation capacity of labour 58% of global working population and they also play the critical role of principal safety net for the bulk of the population in developing economies, and their labour intensity structure accounts for their recognition as a job creation avenue.

**Rural Development:** SME's constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services and the employment opportunities offered apparently reduces rural-urban migration and allows for even development.

**Economic Growth and Industrialisation:** National economic development prospects hinge on entrepreneurial energy of vibrant SME's as most big business concern grew from small scale to big icons, and as they grow, they protect nations from the geographical cost-benefit permutations of a few multinationals who are ever prepared to close up their business and relocate at the slightest provocation or appearance of economic downturn. Ayyagari, Beck and Kunt ( 2005 ) in a survey of seventy countries ( Nigeria included ).

**Better Utilisation of Indeginous Resources:** The considerable low capital outlay required for setting up SME's enables them to convert minimal resources into productive ventures. They also offer veritable outlets for technological advancement especially in business with rudimentary requirements.

### **Sources of Financing for Small and Medium Enterprises in Nigeria**

The Small and Medium Scale Enterprise Development Agency of Nigeria (SMEDAN 2007) has come up with a summarized list of avenues for Nigerian small and medium enterprises to raise funds. They are: (a)Personal savings (b)Loans from friends and relatives including savings club ( Esusu )(c) Deposit Money Banks(d)Micro-finance Banks(e) Co-operative



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societies / Credit unions and other governmental backed development finance institutions such as Bank of Agriculture( B.O.A ).etc.

(a)Bank lending: Typically the main source of fund for an SME's is to obtain a loan from a bank; however this source is highly difficult for the subsector in Nigeria with interest rates at minimum of 19%-23% Minimum Rediscount Rate (MRR). Also other institutional investors lending include, specialized institutions like the Bank of Agriculture(BOA), formerly known as the Nigerian Agricultural Rural Cooperative Development bank (NARCDB) which is a bank established by the government to enhance small and medium agricultural entrepreneurs' growth and development in the country. These were among the strategies that most entrepreneurs find it difficult to access finance through and from these establishments due to harsh requirements attached to loan. Abereijo and Fayomi,(2005)

- (b) Life savings: This will surely take a long time to mature for use arid with inflation the money might have just lost its value when the business needs to be established.
- (c) Friends and family investments: This source is not for the poor [of which Nigeria houses so much-about 66% of the country live below the poverty line of \$1 dollar per day {The World fact book, 2008}.] or people with no parents or rich guardians.
- (d) Co-operative Societies are now common in the country with almost every 1 organisation, company and public agency having at least one society or the other. Co-operative societies according to Olokoyo,(1998) sprang up from more traditional institutions of Esusu/Ajo/Susu/Aterugba/Adashi etc different names in Nigeria given to the arrangement under which people contribute money at periodic intervals and distribute among themselves in agreed succession. Usually the people involved are at least acquaintances or work mates. Many workers now look up to such societies to provide the needed funds to prosecute their various project like buying of a car, building of houses and of course starting up a business.

### **Development Of Co-Operative Societies Kaduna State**

Co-operative societies have been around for sometime now in Nigeria. During the Pre Independence period before 1960, Haig,(1950) impresses that co-operative societies have been existing before 1947 in the country. He notes that co-operatives as at then were already functioning in the fields of production, processing and marketing: credit



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and thrift, whether rural or urban; crafts and village industries; schooling; purchase and distribution of consumers' goods. Chief among these existing co-operative / societies were the Cocoa co-operatives of South – Western Nigeria and the Southern Cameroun. They were composed of more than twenty thousand cocoa farmers and were made up of 300 primary societies. They principally organized how cocoa the major export commodity then was marketed overseas. Anyanwu (2004) comments on Nigerian informal micro-finance institutions.

According to CBN, 2000 Informal microfinance is provided by traditional groups that work for the mutual benefits of their member and staff. The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Ibos in the East and 'adashi' in the North for the Hausas.

The traditional types of community based co-operative societies ( Isusu or Esusu contribution club ) are very careful about who is admitted into their membership. They admit only people who are known for their integrity, honesty, good reputation and kindness. The modern co-operative society only came to borrow and grow from these traditional trails of Nigerian society.

Ijere,(1981) views the Nigerian cooperative societies to be a collection of people in a given community set-up who come together not only for fellow feeling, but also to help themselves. That is to say that individuals form groups or cooperatives immediately their individual efforts are geared towards economic problems to be solved with those scarcity, that match the wants with available resources and seeking ways to augment any shortfall or optimizing the given situation by different types of combinations.

Olokoyo (1998) opines on any cooperative society as a business organisation with the purpose of promoting economic interest of its members who are work or live in the same community and the members join voluntarily as buyers or suppliers to themselves.

Based on the above views community based cooperative society comprises of buyers, suppliers and workers. Many organisations now have workers cooperatives societies. In Kaduna State there are a number of workers cooperative societies and community based cooperative societies. But in a note shell any collection of people that make up a team, striving to achieve a common goal or working together to achieve set objectives is term a community. This can be markets, institutions of learning, hospitals etc. Thus, from its traditional roots of contribution clubs, modern



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cooperative societies have developed and registered their presence within Nigerian organisations in Kaduna State.

### **Aims and Objectives of Community based Cooperative Societies**

Community based Cooperative Societies primarily aim is to improve the economic and social conditions of its members (Adetunji and Olagunju, 2002). This is can be achieved through group action, improved access to education, information and production inputs, which they as individuals might find it difficult to obtain ( Ladele, 1990 ). Furthermore, community based co-operatives are often created to improve the lot of persons of limited resources (such as salary earners) and opportunities as well as encouraging their spirit of initiative.

### **How community based cooperative societies are formed and managed.**

**Membership:** To qualify for membership of a community based co-operative Society is usually dependent on the Constitution of such society. Some cooperative societies are developed in educational institutions communities, others in market communities where trading and productive activities are dominantly done there and in resident areas to enhance and develop the community. In the case educational institutions the criteria to qualify as a member is that a prospecting member must be full tenured staff of the institution. This criterion is flexible though, even if the staff is not yet confirmed. As far as he / she is a staff of the institution can become a member as long as he has registered and accepted the monthly contributions is deducted as source from the payroll. Contributions are usually done monthly and based on the financial ability/salary

In the case of market dominated cooperative societies are located within the market environment and membership is granted by registration with stall ownership/rentals. Contributions are made either daily, weekly, or monthly based on the available financial capability.

### **Challenges of Cooperative Societies and Community based Cooperative Financing**

Co-operative societies encounter some problems in their administration and also there are challenges associated with financing from co-operative societies for small scale businesses. Edwards ( 2000 ) comments: Most consumer, housing, primary producer, agro-processing, manufacturing and service co-operatives have failed or are facing difficulties due to :



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1. Inadequate leadership[ capacity on boards and committees
2. Weak capital structures; Loans requested by members can not at all the time be granted.
3. Restrictive membership: Only registered members who make contributions.
4. Limited staffing to cope with record keeping, data analysis and growth in market demands, personnel management, competition and financial management.
5. Stunned membership growth: small group retaining control.
6. Indiscipline and weak controls leading to waste and losses.

### 3.0 Methodology;

The population of this study is the Community based cooperative societies in Kaduna State. Although, the community based cooperatives are non-formal financial institution but most of them are registered with the corporate affairs commission (the registrars of corporate companies). The paper considers the impact of Community financing on small enterprises in Kaduna State. The paper obtained data from two sources, from both secondary and primary sources of data collection. The study used fifteen(15) different communities of market, education and residential which covers entrepreneurs of different productive and business activities. One hundred and sixty five (165) questionnaires were distributed within and outside the metropolis of the state and one hundred and twenty five(125) filled and returned. The paper covered period of post reformation of the financial sector. The paper adopted the Analysis of Variance technique to test the hypothesis.

### 4.0 Findings.

**The** in appendix below shows the result based on the significance of community based cooperative societies to have more advantage to over the formal institutions of lending.

For participation in contribution to the community based cooperative societies, results shows that membership is attained through registration with continuous monthly contributions. Commuters of these societies are more comfortable with this type of financing, which the results shows that there is high level of acceptance by the small and medium entrepreneurs of the community. This had happened due to its membership participation and involvement of every member of the community.

SME's who were captured in the study cuts across the agriculture, services and productive sector of the economy.



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## 5.0 Conclusion and Recommendations.

Edward (2000) posits that Community based Cooperative societies and SME's should seek closer functional and institutional integration in the new global economy because both sectors have a lot to share and benefit from each other due to similarity in social origin, philosophy, structures and practices, which can be an alternative vehicle and path for economic development. Edward(2000) seeks that the every state should foster the emergence and growth of institutions which encourage thrift and business development among the less privileged members of the society through poverty alleviation programmes and vocational training skills, for this, financial market place becomes more sophisticated and competitive, closer integration between these two grassroots movements, which affects the lives of so many families, becomes a logical and timely consideration. This fact is very applicable within the Nigeria context too.

Harsh conditions attached to financial aid from banks and other formal financial institutions which include high interest rate, collateral, terms of repayment had discouraged the small entrepreneurs to seek for financial aids from the banks. Others have not tried seeking for the loan only work on other people's experiences, while some communities are not even aware with different governmental strategies to promote them. Therefore, the formal sources of finance (banks and government) designed policy schemes that will promote and develop them should stretch out (with soften conditions) to these communities, since their productivity is a prime mover of economic growth and advancement. Not attending to their primary needs can hinder the growth and development of that community which affects the state in which the dwell and thereby affecting the country at large.

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#### ANOVA

|  |                | Sum of Squares | df  | Mean Square | F     | Sig. |
|--|----------------|----------------|-----|-------------|-------|------|
| Sex of the respondent  | Between Groups | .049           | 1   | .049        | .194  | .661 |
|  | Within Groups  | 27.934         | 111 | .252        |       |      |
|  | Total          | 27.982         | 112 |             |       |      |
| How long have you been a member of the cooperative society     | Between Groups | 6.274          | 1   | 6.274       | .807  | .371 |
|  | Within Groups  | 877.987        | 113 | 7.770       |       |      |
|  | Total          | 884.261        | 114 |             |       |      |
| Does the cooperative society involves certain group of members | Between Groups | .365           | 1   | .365        | 1.934 | .167 |
|  | Within Groups  | 21.322         | 113 | .189        |       |      |
|  | Total          | 21.687         | 114 |             |       |      |
| when do you make   | Between Groups | 4.930          | 1   | 4.930       | 6.717 | .011 |



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|  |                |        |     |       |        |      |
|--|----------------|--------|-----|-------|--------|------|
| contributions  | Within Groups  | 82.931 | 113 | .734  |        |      |
|  | Total          | 87.861 | 114 |       |        |      |
|  |                |        |     |       |        |      |
| Are you a beneficiary of its loan facility           | Between Groups | .136   | 1   | .136  | 1.023  | .314 |
|  | Within Groups  | 15.046 | 113 | .133  |        |      |
|  | Total          | 15.183 | 114 |       |        |      |
| If yes was the loan used for promoting any business  | Between Groups | .956   | 1   | .956  | 17.186 | .000 |
|  | Within Groups  | 5.563  | 100 | .056  |        |      |
|  | Total          | 6.520  | 101 |       |        |      |
| How long did the loan lasted before repayment        | Between Groups | .144   | 1   | .144  | .274   | .602 |
|  | Within Groups  | 50.765 | 97  | .523  |        |      |
|  | Total          | 50.909 | 98  |       |        |      |
| How efficient is the cooperative society loan scheme | Between Groups | 1.291  | 1   | 1.291 | 3.135  | .080 |
|  | Within Groups  | 38.709 | 94  | .412  |        |      |
|  | Total          | 40.000 | 95  |       |        |      |

#### Between-Subjects Factors

|   | Value Label   | N  |
|---|---------------|----|
| Are you a beneficiary of its loan facility    | 0 Yes         | 88 |
|   | 1 No          | 8  |
| How efficient is the cooperative society loan | 0 Efficient   | 83 |
|   | 1 Inefficient | 2  |



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|        |   |        |    |
|--------|---|--------|----|
| scheme | 2 | Others | 11 |
|--------|---|--------|----|

### Expected Mean Squares(a,b)

| Source     | Variance Component |                 |            |                |
|------------|--------------------|-----------------|------------|----------------|
|            | Var(How2)          | Var(Are * How2) | Var(Error) | Quadratic Term |
| Intercept  | 2.883              | 2.204           | 1.000      | Intercept, Are |
| Have       | .000               | .000            | 1.000      | Have           |
| Are        | .000               | 10.668          | 1.000      | Are            |
| How2       | 10.763             | 10.859          | 1.000      |                |
| Are * How2 | .000               | .000            | .000       |                |
| Error      | .000               | .000            | 1.000      |                |

a For each source, the expected mean square equals the sum of the coefficients in the cells times the variance components, plus a quadratic term involving effects in the Quadratic Term cell.

b Expected Mean Squares are based on the Type III Sums of Squares.



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## **THE ROLE OF IMAGINATION IN ENTREPRENEURIAL INNOVATION**

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### **ABSTRACT**

This paper seeks to identify the role of imagination in entrepreneurial innovation and practice. Imagination is the ability to form a mental picture, phonological passages, analogies or narratives of something that is not perceived through our senses. This enables entrepreneurs to see things from different perspective and as such helps in empathizing with others. It is a link in the manifestation of memory that enables entrepreneurs to scrutinize the past and construct future scenarios. Imagination is an essential step towards ideation towards creative invention. Since invention requires originality, imagination therefore is a requirement in entrepreneurial practice to create new values to clients. Invention that goes through infusion and adds value is innovation. This conceptual stage in entrepreneurial innovation therefore, helps entrepreneurs to create and nurture new ideas for the growth and sustenance of the organization. It is a critical variable in foresight that combines hindsight with insight in order to predict or determine things in an organization.



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## INTRODUCTION

Much has been written on Innovation, especially in Entrepreneurship practice. Innovation, as submitted by Peter Drucker is a change that creates a new dimension of performance. This may refer to both radical and incremental changes to products, processes and services. The ultimate goal of which is to solve problems and remain competitive.

*Innovation = New Ideas (NI) + Technical Invention (R&D) + Commercial Exploitation (CE)*

In developing new ideas (NI), imagination is the womb on which every logical and illogical reasoning are conceive, nurtured and birth.

Entrepreneurial innovation therefore is a potent combination of new ideas and commercial exploitation in order to remain relevant and competitive in an organization. To achieve this, Dhirubhai Ambani (the founding Chairman of Reliance Group) succinctly stated, “Think big, think fast, and think ahead. Ideas are no one’s monopoly” If ideas are no one’s monopoly, how then can an entrepreneur develop an idea that will propel the organization to a new level of success? It begins with imagination.

Imagination is the ability to form a mental picture, phonological passages, analogies or narratives of something that is not perceived through our senses. Imagination is synonymous to resourcefulness, ingenuity and creativity. It inspires visions and inventiveness.

## OBJECTIVE

There has been literature review that evaluated the contribution of creativity in entrepreneurship theory and practice in terms of building an holistic and transdisciplinary of its impact. Much has been written on the role of knowledge in entrepreneurial practice. But little has been researched or done on the impact and indispensability of imagination as a conceptual framework for creativity and knowledge. In his literature on imagination versus knowledge, Murray Hunter submitted that imagination may be more important than knowledge. Moreover, there is a dearth of resources on the role of imagination in entrepreneurship practice. This study attempts to fill that gap.



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## METHOD

This study adopts a theoretical approach by dwelling on existing literature reviews on entrepreneurial innovation and variables that birth its establishment, growth, sustainability and success. The impact of knowledge, creativity and imagination in entrepreneurial innovation were critically looked into. The study drew from the wealth experience and expertise of the authors, each of which has over 25 years' experience in entrepreneurial practice both as practitioners and instructors.

## DISCUSSION

Murray Hunter (2012) claimed that imagination can either be productive or counterproductive. It is the seat of optimism, hope, fear, enlightenment, and aspirations. There are two kinds of imagination; productive and destructive. Productive imagination is a creative thought geared towards a positive results or outcomes. It is the kind of imagination that fired up ideation and creativity. Destructive or counterproductive imagination on the other hand refers to a kind of mental picture that tend to oppose or generate a combative spirit within an entrepreneur. In In entrepreneurial practice, both productive and destructive imagination must be combined in order to excel. Productive imagination generates positive ideas in order to create services to the clients and the counterproductive imagination deal with competition, competitors and help to generate balance in ideas. Destructive imagination can appear a stupid practice but it is a way to out-compete competition and competitors.

Schumpeters (1962) argued that the innovation and technological change of a nation depends on entrepreneurs and "wild spirit" This wild spirit basically refers to the ability to form mental picture of things that are already not in existence and how they can be made tangible and concrete. To Schumpeters, creative destruction describes a process in which the old ways of doing things are endogenously destroyed and replaced by new ways. It takes a both productive and destructive imagination to do that. Combative imagination deals with destroying the old ideas and ways of doing things while the creative imagination feels the senses with cutting edge and productive ways of staying relevant in business and ways to out-compete with the rivals and imitators.

Our memory is made up of prior knowledge consisting of a mix of truth and belief, influenced by emotion. Recurring memory therefore carries attitudes, values, and identity as most of our memory is within the "I" or "me" paradigm... perspective imagination is



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probably more important than knowledge as knowledge without application is useless. Imagination enables us to apply knowledge. Murray Hunter (2012)

Knowledge and imagination are judged to be ethical based on two different sets of values, motives, and assumptions. These values, motives, and assumptions are grounded in two types of ethical perspective. Imagination has an organic worldview and moral altruistic motives grounded in a deontological perspective. Knowledge, on the other hand, have an atomistic worldview and mutual altruistic motives grounded in a teleological perspective. In actual sense, it is imagination that provides logic and meaning to experience and understanding to knowledge. Without which, the intangible cannot be made tangible. It is the exotic form of creativity that gives expression to knowledge.

Imagination is the source of new ideas and it breeds originality. It helps entrepreneurs in coming up with designs and solution of how to serve their clients better and improve the services the organization renders. Murray Hunter [2012] believes that imagination enables us to create new meanings from cognitive cues or stimuli within the environment, which on occasions can lead to new insights. He stated further that imagination is needed in marketing to create new value sets to consumers that separate new products from others. This requires originality to create innovation. The idea of having a flying object in the sky did not just drop to the Wilbur brothers but it takes a process of constructive imagination. Voted the second most successful innovator of all time, the transformation and uniqueness brought to Apple by Steve Jobs was a function of creative imagination and not a mere knowledge of programming or his managerial skill. To inventors like

Thomas Edison, imagination is the experimental partitioning of the mind used in developing theories and ideas based on function. With imagination, objects are taken from real perceptions, with logic thought to develop new ideas or revised existing ideas. Every invention or innovation is preceded by either a process of productive or combative imagination.

With Imagination, strength and weaknesses are measured and an entrepreneur is able to narrow his options. Possibilities for success and failure are weighed with imagination. Strategic imagination is concerned about vision of 'what could be', the ability to recognize and evaluate opportunities by turning them into mental scenarios, seeing the benefits,



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identifying the types and quantities of resources required for taking particular actions, and the ability to weigh up all the issues in a strategic manner. [Murray Hunter]. The ability to spot and evaluate opportunities is closely linked with a person's imagination, creative thinking, propensity to action, and perceptions of their talents and available skills. According to Bolton and Thompson entrepreneurs spot particular opportunities and extrapolate potential achievable scenarios within the limits of their skills and ability to gather resources to exploit the opportunity. These extrapolations from opportunity to strategy require both visual/spatial and calculative thinking skills at a strategic rather than detailed level. Adequate concentration is required in order to have a strategic outlook upon things. This requires focus in strategic thinking, creativity, a sense of vision, and empathy. Strategic (and also intellectual) imagination can be utilized through thought experiments, the process of thinking through a scenario for the purpose of thinking through the consequences.

### **CONCLUDING OBSERVATION AND AREAS FOR FUTURE RESEARCH**

This paper has shown that there is a clear link between imagination, entrepreneurship and other related areas such as invention and innovation in terms of establishing a competitive advantage for the organization. Entrepreneurial innovation should be concerned with continual creation of alternative solutions to problem solving and identification of new opportunities. This is only achievable when there is productive and destructive imagination. The productive imagination is the creative thought conjured up to create new services to consumers and ensure stability in the organization. While the destructive imagination is the aspect of combative thought that deals on engaging rivals and imitators. This counterproductive imagination also helps with uncertainty and ambiguity in decision making and within the external environment. Imagination helps entrepreneur in problem recognition in the organization. It helps in developing solutions. It provides inspiration and motivation in taking up challenges. Imagination provides a platform to entrepreneur in narrowing down options and assists in exploitation or implementation of the best alternatives.

Murray Hunter [2012] succinctly noted that imagination can consciously and unconsciously dissociate a person from the reality of their everyday life where they may fall into the life of fantasy. Abstract imagination can very quickly take a person away from reality where current problems are ignored in favour of fantasy. Future research should engage on both internal and external factors that directly or indirectly impact imagination in order to distinguish between tangible thought and fictional fantasy or illusion. Practitioners should absorb the holistic conceptualization of imagination in entrepreneurial practice as well as move beyond the conventional to direct impact of imaginative thinking which embraces intangible dimensions which transcend the rigid framework of testing variable relationships.



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Future research can engage on variables that influence imagination; perception, mood and temperament, beliefs and mental health of an entrepreneur. Hypothesis can be developed on the navigating procedures. Otherwise, imagination becomes a mere fantasy and fairy tale which is not resourceful to entrepreneurs.

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## WHAT MAKES SMALL AND MEDIUM ENTERPRISES INNOVATIVE? A LOOK AT KNOWLEDGE MANAGEMENT

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### Abstract

**Objectives:** In the era of dynamic competitive knowledge economy which emphasis on knowledge accumulation, how to speed up industrial intellect capital to utilize for innovation has been the important mission of all industry players worldwide. The concept of knowledge management has become an issue of concern for many organizations and managers. The increasing complexity, turbulent and uncertainty of the environment requires organizations especially the SMEs to garner different and greater knowledge. In fact the only way for present SMEs to survive is the imperative to innovate or perish. Learning faster than your competitors may help the firms to achieve the strategic competitive advantage. Knowledge management and innovation have become crucially important subjects in management. Models that capture knowledge management and innovation in developing countries such as Malaysia are essential to understand the dynamic process of developing knowledge management in order to stay competitive. The purpose of this study is to present the concept of the firm's knowledge management practices as a multidimensional construct to test the relationship with innovative capabilities in the context of small medium growth-oriented companies in Malaysia.



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**Theoretical Background/Previous Practice:** To date, the extant literature is very limited to

provide linking between knowledge management and innovation (Darroch 2003). The studies reported have generally failed to account for the different types of knowledge management practices (Darroch 2003). The need to identify different knowledge management practices in research should be self-evident, since each practice of knowledge management probably requires different resources and core competencies in order to have any effect. In addition, most of the existing studies have derived their innovation processes from large companies' perspectives rather than SMEs. Limited research has been aimed at identifying sources of innovation and the integration of innovation processes from a knowledge-based perspective (Grant, 1996). Although a fascinating array of innovation research has been carried out in the context of R&D issues and economic factors, it only looks innovation from one single aspect: the spending on R&D (Lane et al, 2006). The gaps between knowledge/innovation, larger/smaller firm's perspectives and limited understanding on innovation processes should be filled in to map a more comprehensive picture of the proposition. Therefore, this research is aimed to bridge these gaps through the identifying sources of innovation and the integration of multiple sources of innovation to accumulate innovation capacity from a knowledge-based perspective for SMEs.

**Approach/Methods:** This study draws on empirical results from 125 Multimedia Super Corridor (MSC) companies using stratified sampling procedure. The hypotheses were tested using Pearson Correlation and Hierarchical Regression analysis to examine the relationship between the three dimensions of knowledge management with innovation.

**Results/Insights:** This research is based on a conceptual model linking innovative capabilities, knowledge acquisition, knowledge dissemination and knowledge utilization. The results indicated that all three proposed knowledge management practices (knowledge acquisition, knowledge dissemination and knowledge utilization) were important for developing innovative capabilities.

**Implications:** This study contributes to small medium growth-oriented companies by increasing our theoretical and empirical understanding of how knowledge management practices affect its innovative capabilities. This study encourages practitioners to focus their KM initiatives especially on the three dimensions that had significant effect on innovation.



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**Keywords: knowledge management, innovative capacity, small-medium industries**

## 1. Introduction

In the era of dynamic competitive knowledge economy which emphasis on knowledge accumulation, how to speed up industrial intellect capital to utilize for innovation has been the important mission of all industry players worldwide. According to Reinhardt, Bornemann, Pawlowsky and Schneider (2003), "With knowledge as one of the most important resources today. . . management obviously should attempt to identify, generate, deploy, and develop knowledge" (p. 794). The concept of knowledge management has become an issue of concern for many organizations and managers.

The increasing complexity, turbulent and uncertainty of the environment requires organizations especially the SMEs to garner different and greater knowledge. In fact the only way for present SMEs to survive is the imperative to innovate or perish. Learning faster than your competitors may help the firms to achieve the strategic competitive advantage. According to Simard & Rice (2006), there is a need for greater efficiency, effectiveness and competitiveness which is based on innovation and knowledge especially to SMEs. Therefore, Malaysian small-medium size firms all have seen knowledge as a sustainable competitive advantage (Porter, 1990) and start to implement knowledge management (KM) to bring sustaining innovation and value creation into organizational structure.

To date, the extant literature is very limited to provide linking knowledge management with innovation (Darroch 2003). The studies reported have generally failed to account for the different types of knowledge management practices (Darroch 2003). The need to identify different knowledge management practices in research should be self-evident, since each practice of knowledge management probably requires different resources and core competencies in order to have any effect. In addition, most of the existing studies have derived their innovation processes from large companies' perspectives rather than SMEs. Limited research has been aimed at identifying sources of innovation and the integration of innovation processes from a knowledge-based perspective (Grant, 1996). Although a fascinating array of innovation research has been carried out in the context of R&D issues



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and economic factors, it only looks innovation from one single aspect: the spending on R&D (Lane et al, 2006). The gaps between knowledge/innovation, larger/smaller firm's perspectives and limited understanding on innovation processes should be filled in to map a more comprehensive picture of the proposition. Therefore, this research is aimed to bridge these gaps through the identifying sources of innovation and the integration of multiple sources of innovation to accumulate innovation capacity from a knowledge-based perspective for the SMEs.

The research areas of knowledge, knowledge management and organizational learning have become increasingly linked to one another and to the dynamic capabilities perspective. The dynamic capabilities perspective emphasizes that a firm's abilities to renew and to develop its

organizational capabilities are essential for building and sustaining competitive advantage

(Eisenhardt and Martin, 2000; Grant, 1996; Kogut and Zander, 1992; Nonaka, 1994; Spender, 1996; Teece et al., 1997). In the proposed framework, the abilities to acquire, assimilate and apply knowledge, which we collectively refer to as knowledge capacities, represent a particular subset of dynamic capabilities which has taken on growing interest in the management literature (Lane et al., 2006; Lichtenthaler, 2009; Lichtenthaler and Lichtenthaler, 2009; Zahra and George, 2002). The assertion that knowledge capacities can affect firm-level outcomes, including innovation, is not new. However, the majority of this research focuses on large firms and on firm-level concepts (Eisenhardt and Martin, 2000; Kogut and Zander, 1992; Nelson and Winter, 1982; Teece et al., 1997; Winter, 2003). However, even in large firms, an understanding of why or how such capacities are linked with performance is still not clear.

## 2. Objectives

To summarize, the present paper contributes to the existing literature in several ways. *First*, building upon the model of Darroch (2001), we present a knowledge-based dynamic capabilities model which treats KM practices into three major components: external knowledge acquisition, intra-firm knowledge dissemination and knowledge utilization.



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*Second*, we expand on the empirical literature by providing insight into which KM practices contribute positively to innovative capabilities that comprise of market innovativeness, product innovativeness, process innovativeness, behaviour innovativeness, and strategic innovativeness (Wang and Ahmed, 2004). *Third*, by focusing on KM practices as recurring patterns of behaviours or routines, we create a link between individual action and firm-level routines or capabilities, showing further, how organizational routines or practices may stimulate innovation. *Fourth*, our findings support a view of looking at innovation as product and process (Melkas et al., 2010). *Finally*, in the discussion section we link our findings to future directions in research which can further enhance our understanding of the knowledge management practiced among the small-medium organizations.

### 3. Knowledge Management Practices

#### 3.1 Knowledge Acquisition

External Knowledge Acquisition refers to a firm's capability to identify and acquire externally generated knowledge that is critical to its operation (Zahra & George, 2002). Lenox and King (2004) have given an encompassing definition for knowledge acquisition: it involves the intra-organizational processes facilitating tacit and explicit knowledge creation, codification, and transfer from individual members to the organization and the entry of this knowledge into the knowledge management system, as well as the identification and absorption of information and knowledge from external sources. Knowledge acquisition is also defined as a process of transferring knowledge from other organizations (Roberts, 1998).

In this study, knowledge acquisition is defined as a set of activities of gathering knowledge from sources outside the organization and generating new knowledge from activities within the organization (Darroch, 2001; Baetz, 2003; Marquardt, 1996). The ability of knowledge acquisition is determined by the extent to which the practices have been pervasively performed by the entire organization. In addition, there are a number of external sources from which to gather knowledge, including the organization's sales/service staff, customers, relevant trade journals, competitor's products, industry analysts, consulting firms, and relevant workshops, conferences, and seminars (Marchi & Belardo, 2000; Marquardt, 1996;



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Stewart, 1997; Tannenbaum, 1998). Van den Bosch et al. (1999) have distinguished three types of knowledge to be included in their knowledge absorption components: knowledge related to products or services, knowledge related to production processes, and knowledge related to markets. As a determinant of knowledge management practices, external knowledge acquired from three sources will be illustrated in this study: knowledge from customers, knowledge from competitors and other external organizations, and knowledge from external training. In order to maximize knowledge acquisition from outside sources, the activities should be designed to tap all of the available knowledge domains and knowledge sources.

Innovation is partly based on finding new ways of combining production system outputs in order to increase efficiency (Schumpeter, 1934). This new combination implies a reconsideration of the firm's inputs. Therefore, a new interpretation of the existing knowledge is essential for innovation (Galunic and Rodan, 1998).

New knowledge is supposed to be assimilated by the organisation members in order to become part of the organisation as a whole (Nonaka and Takeuchi, 1995). This acquired new knowledge interacts with the previous knowledge in order to modify total knowledge stock of the firm (Van den Bosch **et al.**, 1999). Due to the existing relationship between all embedded knowledge in different levels of the organisation (Crossan **et al.**, 1999), the generated knowledge will turn into the base to establish new routines and mental models. Therefore, knowledge flows coming from outside the firm become opportunities for service industries to recombine current stock of knowledge and create new knowledge. According to this idea, new ideas about new ways of developing processes and services will emerge from this new knowledge in order to, for example, improve customisation and/or process efficiency. Hence, the following hypothesis is formulated:

Hypothesis 1: Organizations having high levels of external knowledge acquisition are likely to exhibit higher levels of innovation.

### ***3.2 Knowledge Dissemination***

The second component of knowledge management practice is knowledge dissemination that involves the communication of the generated knowledge to all relevant departments and individuals. Successful acquisition of knowledge requires the participation of many of the



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organization's departments. Successful dissemination also requires significant knowledge flows and sharing to ensure that the knowledge reaches the relevant people.

Sinkula et al. (1997) pointed out ways to disseminate knowledge, such as during interdepartmental meetings and through interdepartmental cooperation. Hunseok (2002) has identified three practices to share tacit knowledge: knowledge accumulation, social information collection (extra and intra-firm), and transfer of knowledge. Knowledge accumulation is defined as the extent to which employees gather information from sales and production sites, share experiences with suppliers and customers, and engage in dialogue with competitors (Nonaka, 1994). Baetz (2003) has identified three groups of practices that enhance the knowledge sharing and dissemination within the firm: the use of public forums to share best practices, the use of internal experts, and the accessing of knowledge repositories. Similarly, Darroch (2001) has identified five factors to measure knowledge dissemination: 1) readiness to disseminate market information around the organization; 2) disseminating knowledge on-the-job (using techniques such as quality circles, case notes), 3) use of mentoring and coaching to disseminate knowledge; 4) using technology (such as teleconferencing, videoconferencing and Groupware) to facilitate communication; and 4) preferring written communication to disseminate knowledge.

At the individual level, acquisition and use of knowledge requires specialization due to individuals' cognitive characteristics (Simon, 1991). Also, knowledge acquisition requires higher specialization than knowledge integration (Grant, 1996). So, environments created inside the organisations generate the conditions that either foster or diminish knowledge application and integration when creating new and improved product and services. According to Demsetz (1991), the efficiency in knowledge acquisition requires individuals to specialize in knowledge specific areas, while knowledge application requires integration of different knowledge areas.

There are factors depending on the source and receiver of knowledge that affect knowledge dissemination and transfer. For instance, lack of absorption capacity of knowledge receivers (Cohen and Levinthal, 1990; Lane and Lubatkin, 1998) affects negatively organisational learning and innovation capabilities. Therefore, it is necessary to develop new techniques that improve knowledge communication and dissemination by providing new forms of knowledge sharer relationships (Szulanski, 1996). Both process and product Innovation require the integration of different and highly specialized knowledge (Leonard-Barton, 1992). The following hypothesis resumes this idea:

Hypothesis 2: Organizations having high levels of internal knowledge dissemination are likely to exhibit higher levels of innovation.



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### ***3.3 Knowledge Utilization***

Knowledge utilization occurs when the firms can effectively create, manage and exploit knowledge in order to gain competitive advantage. According to Zahra and George (2002), the transformation and exploitation capabilities are likely to influence firm performance through product and process innovation. The transformation capabilities help firms to develop new perceptual form and exploitation capabilities take this a step further to convert the perceptual knowledge into new product (Kogut & Zander, 1992).

Pfeffer & Sutton (1999) made a distinction between knowledge distribution, transfer, and sharing. They define Knowledge distribution as knowledge that is diffused for masses without clear defined purpose. And knowledge sharing is usually based on voluntary (Pfeffer & Sutton, 1999). On the other hand, knowledge transfer refers more to the knowledge diffusion process itself. Diffusion of organizational knowledge can help organizations to benefit their employees' complementary skills. However, capturing intra-organizational knowledge is often extremely difficult (Pfeffer & Sutton, 1999).

Responsiveness to knowledge simply means that the organization responds to the various types of knowledge it has access to – for example, if the organization acquires knowledge about customers then it responds to that knowledge. Along with responding to knowledge, the quality and timeliness of the response is included as a representation of organizational agility (Dove, 1999).

Based on their study, Darroch & McNaughton's (2003) developed three hypotheses whereby a firm with access to a greater pool of knowledge will have better-developed knowledge dissemination and responsiveness to knowledge behaviours and practices. Similarly, a firm with better-developed knowledge dissemination behaviours and practices will be more responsive to innovation. The hypothesis is therefore developed:

Hypothesis 3: Organizations having high levels of knowledge utilization are likely to exhibit higher levels of innovation.

### ***3.4 Innovation***



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Typically, most research on innovation has based on a single (or a few) innovation indicator(s) with R&D expenditures and patent counts being the most popular proxies for organization innovativeness. However, given that the innovation process is a complex phenomenon characterized by several stages ranging from basic research to the penetration of the market with a new product (Wan et al., 2000). It is important to consider a broad range of innovation indicators in order to more accurately capture the level of innovativeness in a firm (Rogers, 2003). According to Rogers (2003), one method of assessing innovation is to distinguish between the outputs of innovative activity and the inputs to innovative activity. According to Wong (2004), the input measures will always serve as the independent variables whereas the output measures will serve as the dependent variables. Output measures include the number of new products or processes that are developed by the firm in a year. Innovative organizations are assumed to develop more new products and processes than non-innovative firms. Another output measure used is the percentage of sales attributed to new products or processes. Innovative organizations will also be expected to have more of its revenue derived from new products or processes. Input measures include the percentage of annual revenue or sales used to fund research and development projects.

Wang and Ahmed (2004) have defined organizational innovativeness as “an organization’s overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behaviour and process”. (p. 304). This study uses five measures of innovative capabilities: (1) market innovativeness, (2) product innovativeness, (3) process innovativeness, (4) behaviour innovativeness, and (5) strategic innovativeness.

#### **4. Methodology**

The study utilized the results of a questionnaire which had been previously developed by several researchers (Darroch 2001, Jantunen, 2005 ).The target population included the MSC (multimedia Super Corridor) status companies across a large range of IT and IT-related industries. There were 500 questionnaires distributed and 125 returned survey were deemed usable for further analysis resulted in 25 percent response rate. The data were analyzed using SPSS. Cronbach alpha coefficients were calculated to test the instrument’s reliability. Multiple regression were used to test the relationships between the variables as stated in the hypotheses.

#### **5. Findings**



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Hair et al. (1998, p.225) describe the application of factor analysis as a means by which to analyze the interrelationships among a large number of variables and explaining these research variables in terms of their common underlying dimensions (factors/ constructs). A cut-off loading of 0.3 was used to screen out variables that were weak indicators of the constructs. Apparently, most factor loadings were well above the +0.30 level, and as such, can be considered as demonstrating a high level of significance (see Tables II & III).

The regression analysis produced equations that represent the best prediction of the dependent variable from several of the independent variables. Therefore, the objective of the multiple regression analysis was to determine which independent variables (constructs) were important in predicting innovative capabilities. Table I shows the bi-variate correlation coefficients of factors of knowledge management and their relationships with the innovative capabilities. The correlation coefficients were all above 0.5 and were significant.

Table IV shows the multiple regression of the three factors of knowledge management regressed on the dependent variable: innovative capabilities. This regression models are run for each of the dependent variables separately as show in Table IV. The results show that knowledge acquisition ( $t = 3.467$ ,  $p = .046$ ) is found to have associations with innovative capabilities. The knowledge dissemination ( $t = 4.145$ ,  $p = .006$ ) and knowledge utilization ( $t = 4.378$ ,  $p = .000$ ) are both found to be essential for innovative capabilities. Nearly all items in the knowledge management scale were highly correlated, raising the potential problem of multicollinearity. Therefore, before proceeding with regression analysis, the variance inflation factors (VIF) were calculated and found to be no greater than 2.50 for any variable. Another method was using a simple examination of the correlation matrices for the independent variables (Hair et al., 1998). The presence of high correlations, generally above 0.9 and above were the first sign of collinearity. Examining the correlation matrices in Table IV, the inter-correlation coefficients were found to be generally well below the recommended correlation coefficient value  $r = 0.9$ . Therefore, the decision to proceed with regression analysis was upheld, since the effect of multicollinearity fell within acceptable limits (Hair et al., 1998).



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## 6. Discussion

We have taken an initial step toward formulating a theoretical framework and empirically testing the relationships among knowledge acquisition, knowledge dissemination and knowledge utilization in the context of small-medium growth companies. Some studies have explored the relationships among these concepts, but in a partial piecemeal manner. The research provided strong support for the given hypotheses. The results have important implications in the fields of decision-making, strategic management and knowledge management. Innovation is an important outcome of firm processes and has been shown to be critical for internalization (Roper & Love, 2002; Pla-Barber & Alegre, 2007) as well as for firm performance (Calantone et al., 2002; Hult et al., 2004). This research provides evidence that knowledge management practices enhance innovation performance and explain how this positive effect occurs.

This research has provided an examination of the effects of knowledge management on innovation in small-medium growth companies. Given that innovation performance may vary among high-tech producers and service providers, we attempted to understand this asymmetry within the context of company knowledge management. Results suggest that sustained competitive advantage in the high-tech industry requires company strategies that capitalize on knowledge management practices. Furthermore, special attention needs to be paid to knowledge acquisition, knowledge dissemination and knowledge utilization since we have found that the main effect of knowledge management on innovation performance is direct.

This study also supports new trends in the resource-based view research, according to which research should not only relate innovation with the intensity of R&D, but must also make efforts to obtain additional understanding of the whole competitive advantage creation process by considering the role of knowledge management.



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## 7. Limitations

Overall, our results should be viewed in light of several limitations. First, the data were gathered at one point in time, so no inferences of causality can be conclusively established, nor can be discount the possibility of reverse causality. Second, this is a mono-method study. Collecting the dependent and independent variables from a single informant is likely to favour the response rate, but it gives rise to concerns about common method bias. Third, we did not control the size, the age and the ownership of companies in our analysis, which had been proven to affect the innovation level. Finally, the target population of this study was taken purely from MSC list which carried the homogeneous characteristics. This may restrict the sampling approach that lead to generalizability of the research.

## 8. Implications

Our study makes a contribution to the resource-based view by supporting the perspective that a company's innovation performance and competitive advantage are a function of complex inimitable resources that are embedded within the organization (Barney, 1991). Further, it shows how knowledge management provides flexibility in organizational practices. The questionnaires to examine knowledge management are highly firm-specific in the sense that there are no standard formulas for their implementation. Therefore, it is difficult to imitate and integrate into organizational routines. Knowledge acquisition, knowledge dissemination and knowledge utilization are valuable because they contribute to innovation performance. As a result, knowledge management practices may be regarded as a substantial source of sustained competitive advantages for the company.

A second related contribution of our study is providing a clear understanding of the knowledge management process. Knowledge is sought through a variety of different sources and created through different mediums. Then, the dissemination of knowledge around the organization has been the focus of most attention in the knowledge management. It has been supported by earlier studies the organizational structure of a firm and cross-functional



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communication will improve knowledge sharing among departments and individuals within a firm (Van Den Bosch et al., 2003; Lane and Lubatkin, 1998). Lastly, the organization will respond to the various types of knowledge it has access to. The organization can make use of this pool of knowledge when they need to address external information within a subject. This notion is consistent with, and builds on some of the earlier work in this area (Darroch & McNaughton, 2003; Loasby, 2000)

A third contribution is to the emerging knowledge-based view, which posits that knowledge constitutes the ultimate source of competitive advantage. This study provides a clearer understanding of knowledge effect on innovation performance supported by an empirical test.

Our study has also interesting implications for practice. It shows managers how to maximize the competitive advantage. Managers should consider knowledge acquisition, knowledge dissemination and knowledge utilization when formulating the firm's strategy.

**Table I Correlations among independent and dependent variables (N=125)**

|                         | Knowledge acquisition | Knowledge dissemination | Knowledge utilization | Innovative capabilities |
|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Knowledge acquisition   | 1.00                  |                         |                       |                         |
| Knowledge dissemination | .782**                | 1.00                    |                       |                         |
| Knowledge utilization   | .827**                | .586**                  | 1.00                  |                         |
| Innovative capabilities | .670**                | .748**                  | .729**                | 1.00                    |

Notes: N = 125, \*p < .05; \*\* p <.01



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**Table II Factor Analysis results: independent variables**

| Variables   | Factor Loading | Cronbach's Alpha |
|---|----------------|------------------|
| <b>Knowledge Acquisition</b>  |                |                  |
| Organization values employees' opinions and attitudes   | 0.554          |                  |
| Organization has well developed financial reporting systems                                     | 0.442          |                  |
| Organization is sensitive to information about changes in the market place                      | 0.467          |                  |
| Human capital profile   | 0.512          |                  |
| Organization works in partnership with other firms, customers, institutions or consulting firms | 0.367          |                  |
| Organization gets information from market surveys   | 0.413          |                  |
| R&D spending & numbers of patents gained  | 0.535          | 0.82             |
| <b>Knowledge Dissemination</b>  |                |                  |
| Market information is freely disseminated   | 0.652          |                  |
| Knowledge is disseminated on-the-job  | 0.433          |                  |
| Use specific techniques to disseminate knowledge  | 0.521          |                  |
| Organization uses technology to disseminate knowledge   | 0.495          |                  |
| Organization prefers written communication  | 0.695          | 0.71             |



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|  |       |      |
|--|-------|------|
| <b>Knowledge Utilization</b>               |       |      |
| Responds to customers                      | 0.621 |      |
| Well-developed marketing function          | 0.472 |      |
| Responds to technology                     | 0.325 |      |
| Responds to competitors                    | 0.576 |      |
| Organization is flexible and opportunistic | 0.461 | 0.68 |

**Table III Factor analysis results: dependent variables**

| Variables                      | Factor loading | Cronbach's Alpha |
|--------------------------------|----------------|------------------|
| <b>Innovative Capabilities</b> |                |                  |
| Behavioral innovation          | 0.562          |                  |
| Strategic innovation           | 0.457          |                  |
| Market innovation              | 0.366          |                  |
| Process innovation             | 0.467          |                  |
| Product innovation             | 0.361          | 0.61             |
|                                |                |                  |

**Table IV Multiple Regression Analysis Results**

| Independent Variables | B | Standardized Coefficients Beta | T | p-value |
|-----------------------|---|--------------------------------|---|---------|
|                       |   |                                |   |         |



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|                         |       |      |        |         |
|-------------------------|-------|------|--------|---------|
| (constant)              | 2.580 |      | 15.083 | .000    |
| Knowledge acquisition   | .467  | .489 | 3.467  | .046*   |
| Knowledge dissemination | .578  | .592 | 4.145  | .006**  |
| Knowledge utilization   | .589  | .601 | 4.378  | .000*** |
| F = 3.97                |       |      |        |         |

Notes: N= 125; \*p < .05; \*\*p < .01; \*\*\*p = .000

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## **CREATION AND MULTIPLICATION OF PRIVATE INSTITUTIONS OF HIGHER EDUCATION IN DRC: DIAGNOSIS OF ENTREPRENEURSHIP MODEL AND ANALYSIS OF ITS CONTRIBUTION TO SUSTAINABLE DEVELOPMENT OF THE COUNTRY\***

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### **Abstract**

**Objectives:** develop a model of entrepreneurial process and the business model for the creation of private universities in the DRC

**Theoretical Background/Previous Practice:** Models of entrepreneurial process according to Michel Hernandez and Shapero, Developing a business model according to Thierry Verstraete

**Approach/Methods:** Survey, SWOT diagnosis, deduction and longitudinal approach, software:SPSS

**Results/Insights:** Model similar to social entrepreneurship model

**Implications:** New approach in the creation and funding of private higher education institutions (Profitability as U.S. university or not?).

**Keywords:** Entrepreneurship, private universities, sustainability, entrepreneurial process, business model, DRC.

Since the late '80s, one notes the establishment and expansion of private higher education institutions in the DRC, mainly in Kinshasa. This however poses the problem of the quality of sponsors, the motivation for their creation, servicing and viability, profitability and contribution to sustainable development.

Indeed, after independence, the DRC had only three major universities including the Universities of Kinshasa, Kisangani and Lubumbashi. Also a small number of technical and trade colleges and at least one institute of higher learning by province. Obviously all are Congolese state-owned. Every province has at least one public university and several private.



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Several seasoned private finance argue that investment in colleges and universities has no leverage but how to justify this enthusiasm and the wave of creation of private schools in the above period? Such is the wisdom of our curiosity and amazement.

Diagnosis by SWOT will focus on the internal strengths and weaknesses of these universities and the external constraints and opportunities that finally open to recommendations.

As such, we will conduct a survey of at least 20 higher education institutions. During the investigation which we will look specifically at the profile of the creators, the path of their adventure, in the form of entrepreneurial institution creates, relations with the organizing authority (the Department), the problems inherent in the daily management including the funding and maintenance staff as administrative than academic, the teaching staff, their remuneration and support, quality of teaching, faculties organized, the value of academic qualifications, the endorsement of diplomas, international influence and especially the impact of training on sustainable development.

However, we also explore the evolution of different cohorts of students and the dropout rate. The tuition fees will not be left aside in order to estimate the profitability and analyze other forms of financing.

Processing this information by using SPSS software will allow us to define a business model and an entrepreneurial process to confront to the models of Shapero and Michel Hernandez. The results found by deducting will develop a model entrepreneurial university in the DRC.

Concerning sustainable development, we will analyze emphatically the universities established in strategic locations such as Mbandaka, Gbadolite in the equatorial forest once proclaimed lungs of the planet and Mbuji-Mayi for its geology (erosion and mining). It should be noted in advance that the faculties that are created there show a link with the local availability and ecosystem protection.

Similarly, for example, the existence of faculties of rural economy, geology and agronomy at the UNIGBA, geology, computer science and Polytechnic at University of Mbuji-Mayi, economic development and social communication at the Catholic University at Limete to Kinshasa.

So will be structured the work we want come to expose to Kuala Lumpur meeting if our proposal is successful.

\*Full paper not available



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## HOW TO INTEGRATE DESIGN MANAGEMENT CONCEPTS INTO SME? EXPERIENCES FROM THE SOUTH BALTIC SEA REGION

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### Abstract

**Objectives:** Design Management is a high-ranked topic on the entrepreneurial agenda, but the proposed concepts for implementing SME – suitable design management concepts are often too academic and abstract. In this respect, the discussed solutions appear to go beyond the needs of entrepreneurs and SMEs. Therefore, in summer 2011 the EU has approved the project DesignSHIP with partners from Poland, Germany and Sweden in order to develop and test a cross-border design management training programme for SMEs in terms of the needs of entrepreneurs.

**Theoretical Background/Previous Practice:** Design Thinking (Brown 2008, Brown and Wyatt 2010), Open Innovation (Bartl 2008, 2010) and Design Management (Lüdgens and Piller 2010) are well known topical and powerful concepts focusing on entrepreneurship, innovation and design, especially in the context of an inter-cultural environment like it is in the South Baltic Sea Region. Unfortunately, when it comes to the implementation of SME-suitable design management concepts, few success stories can be located. Within the DesignSHIP, new ideas and concepts are developed and tested to facilitate the realisation of new SME-oriented design management concepts by integrating cross-sectoral and inter-cultural groups of academics, graduates and entrepreneurs operating in the design sector as well as to generate sustainable design management concepts for SMEs aimed at knowledge transfer and exchange of good practices.



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**Approach/Methods:** In a series of trainings across the Southern Baltic Sea, there has been developed, tested and improved a new SME-oriented design management concept based on open innovation and design thinking approaches in cross-sectoral and inter-cultural groups of academics, graduates and entrepreneurs. The project work follows the evolutionary approach that is supported by semi-structured interviews, qualitative and quantitative surveys and expert assessments. The presented results are based on summary reports of the empirical activities.

**Results/Insights:** The paper presents the first results of the DesignSHIP project by highlighting the expectations and needs of entrepreneurs concerning the SME-oriented design management concepts and implications how to develop sustainable design management skills and structures inside SMEs in order to induce innovation and growing entrepreneurship.

**Implications:** Currently, design management enjoys growing importance on the entrepreneurial agenda, but most approaches and concepts are oriented on large-scale companies. When it comes to realistic and feasible design management concepts for entrepreneurs it is evident that special SME-suitable implementation concepts are hardly to find. This is especially the case in an inter-cultural environment. The research activities and results of the DesignSHIP project will bring out SME-suitable design management concepts which are tested and oriented according to the needs of entrepreneurs.

**Keywords:** Entrepreneurship, Design Management, Inter-cultural Innovation, Open Innovation, Cross-sectoral Innovation.

## Abstract

Innovation is the key driving factor for the economic grow and social wealth. Innovative products and services emerge more often as a result of cross-sectoral combination of technologies, design and business models. Already Joseph Schumpeter emphasised the importance of innovation for entrepreneurial activities by incessantly revolutionising economic structures in order to get better or more effective processes and products. His famously words concerning “creative destruction” stressed already the close links between entrepreneurship, innovation and design.

In the meantime, Design Thinking, Open Innovation and Design Management are high-ranked topics on the entrepreneurial agenda, since they are representing broadly recognised key driving factors for economic grow and social wealth. Innovation emerges often as a result of cross-sectoral and cross-cultural combinations of technologies, design and business



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models. However, the proposed concepts for implementing design management are often too academic and abstract and do not take into account the special needs of entrepreneurs.

In order to improve the situation the European Union approved in summer 2011 within the frame of the South Baltic Programme the INTERREG IVA project DesignSHIP involving four partners from Poland, Germany and Sweden represented by science park, scientific organisation, universities and non-profit organisation acting in design sector. The project is led by the Gdynia Innovation Centre in Poland.

The overall idea of the project is to facilitate the realisation of new SME-oriented design management concepts by integrating cross-sectoral and inter-cultural groups of academics, graduates and entrepreneurs operating in the design sector and to develop sustainable design management concepts for SMEs aimed at knowledge transfer and exchange of good practices. In a series of trainings across the Southern Baltic Sea involving cross-sectoral and inter-cultural groups of academics, graduates and entrepreneurs, there has been developed, tested and improved a new SME-oriented design management approach based on open innovation and design thinking concepts. The project work follows the evolutionary approach that is supported by semi-structured interviews, qualitative and quantitative surveys and expert assessments. The results are based on summary reports of the empirical activities.

The paper presents the first results of the DesignSHIP project by highlighting the expectations and needs of entrepreneurs concerning a SME-suitable design management concepts and implications how to develop sustainable design management skills and structures in SMEs in order to induce innovation and growing entrepreneurship.

## 1. Introduction

In recent years cross-sectoral discussions on innovation are gaining importance in the context of entrepreneurship. Especially an integral innovation approach of design and technology is considered as a key driving factor for the economic grow and competitive advantage (Lüttgens and Piller, 2010). One important argument for combining design and technology activities in product development can be found in the fact that clients perceive products as a bundle of properties, where design emotionally attracts and influences the clients, whereas technology generates satisfaction during the later usage of the product. This approach already explains that it is necessary to follow an integral concept of design and technology in innovation in order to raise customer satisfaction and avoid customer disappointment, since the design-caused quick emotional effect of a product concept will be successful on the market only if the technology is able to affirm rationally the emotional expectations by positive experiences during the product life time (Wood et al., 2011).

When it comes to the assessment of the new design management concepts, two studies reveal the economic success of design-oriented innovation strategies. In the first study, new car



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models were analysed in the German market between 1978 and 2006, where for each model launched the impact of new innovative design features on sales figures has been investigated. By assessing “design newness” and technical innovations of new models it was possible to prove that both design and technical innovation are drivers for sales, but the temporal impact of design and technology differs. Whereas design innovations enjoy an immediate impact on sales, which last over the whole product life cycle, technical innovations deploy their influence with delay and the impact fades out over the product life cycle (Talke et al., 2009).

In a second study, the Spanish and Italian home equipment companies have been investigated, and it turned out that a strong integration of dedicated design activities into the R&D process shows a significant positive impact on the business success, which stresses that the impact of design on business success is not a random success, it is a result of a systematic process (Chiva and Alegre, 2009). The results of Chiva and Alegre also unveil that higher R&D expenses alone are not sufficient for business success. More important are design management skills, open innovation concepts and integration of design and R&D processes. Hence, the development of design management skills can contribute to the success of new product development and company success.

By building upon past and recent trends and multifunctional deployment of design management within enterprises, design management has been perceived as very narrow and specific or very comprehensive phenomenon. Since the present paper examines the integration of design management into enterprises activities and its role for its performance, i.e. the strategic perspective, design management implies a business strategy for corporates. Broadly, design management can be understood as all methods, means and tools referring to planning, realisation and controlling of the effective use of design to achieve business objectives, where design management is perceived as holistic process extending across all design fields aimed to create a homogeneous image of an enterprise (Kortwig, 1997: 17-19). Definitions of design management in similar fashion are to be found in numerous other writings, where design management is conceived as a series of organisational and managerial skills and practices to optimise the design process (Chiva and Alegre, 2009: 426; Koostra et al., 2009: 9). Consequently, design management has been narrowed down to the design field and its impact on diverse business practices. By echoing several studies, design has been deployed to enhance business performance (Chiva and Alegre, 2009; Tether, 2005), to determine design clout on the economic outputs of corporates (Kretschmar, 2003; Grzecznowska, 2005), to manage and accelerate innovations (Dickson et al., 1995; Verganti, 2006; Brown, 2008; Koostra et al., 2009; EU Commission Staff Working Document, 2009) or to gain competitive advantage (Borja de Mozota, 2003).



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By bearing on respective thematic literature, it can be stated that within design management array, design has been perceived and dealt with in a myriad of ways. However, it is obvious that within design management discourses, design has been considered as a construct used to deduce or justify respective practices. By contrast, the paper reasons that a different approach should be employed. It is argued there that design management should be regarded as a manifold process incorporating design, technology and business-related processes and complemented by design thinking, open innovation and innovation management concepts as currently popular topics on business agendas.

Therefore, the key objective of the present paper is to develop and validate design management concept that, in turn, enables to design solid scenarios for the design management concept integration into the business activities of enterprises and evaluate the contribution of the design management concept to the business performance, especially in the face of increasing competition, when enterprises are searching for new tools and techniques to deploy for their business and development strategies.

## 2. Theoretical background

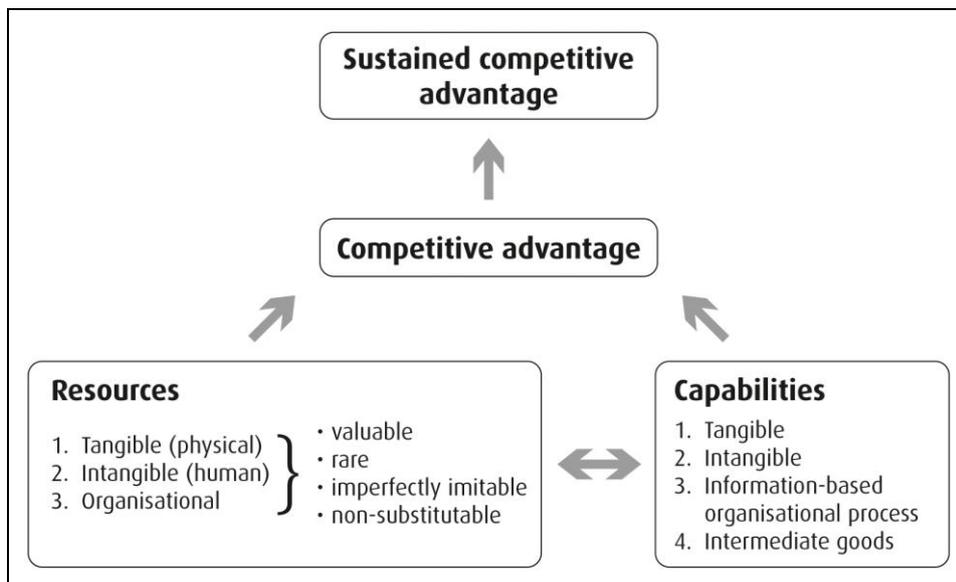
Theoretical background is based on five central approaches, such as the *resource-based view (RBV)*, *design thinking*, *innovation management*, *open innovation* and *sustainable entrepreneurship*.

Following Wernerfelt, the *resource-based view* provides the perception of corporates as a broader set of resources from a strategic perspective, i.e. a basis to address key issues when generating the corporation's strategy. Regarding the specification of the resource itself, Wernerfelt understands by a resource anything that can contribute to a strength or weakness of a given corporation (Wernerfelt, 1984: 172). Barney takes this a step further and provides a more detailed notion of the resources of a firm. Accordingly, to the potential resources of a particular firm he allocates all assets, capabilities, organisational processes, firm attributes, information, knowledge etc., i. e. all potential that, in turn, when controlled by this firm allows it to recognise and implement strategies that improve the firm's efficiency and efficacy (Barney, 1991: 101). A clearer notion of resources can be generated by confronting the perceptions of resources and capabilities, as outlined by Amit and Schoemaker. By drawing on their observations, capabilities refer to a firm's capacity to deploy resources by incorporating organisational processes and are generated by a firm to provide enhanced productivity of its resources as well as a strategic flexibility and protection for its final product or service. Moreover, in contrast to resources, capabilities are based on developing, carrying, and exchanging information through the firm's human capital (Amit and Schoemaker, 1993: 35). Regarding differentiation of resources, academic research has provided with diverse classifications of resources. The paper builds upon the classification shown in figure 1. Capabilities, like resources, can be differentiated as well.



As emphasised by Wernerfelt, resources can generate profits to a specific firm (Wernerfelt, 1984: 172). With regard to competitive advantage, Barney differentiates between competitive advantage and sustained competitive advantage, where the former emerges when a firm is implementing a value leading towards a strategy that cannot simultaneously be implemented by any current or potential competitor. The latter one implies the same attributes as the former one, but in contrast to this presupposes that a particular current or potential competitor is unable to duplicate the benefits of this particular strategy implemented by a firm (Barney, 1991: 102). What is of essential importance in this context is the identification of resources that carry with them potential to generate competitive and sustained competitive advantage. Following Barney, the focus should be concentrated on strategically crucial resources that are valuable, rare, imperfectly imitable and non-substitutable. Provided that a given firm possesses such resources, it is therefore able to develop resource-based advantages that can be sustained over time (Barney, 1991: 105-106). The general resource-based view is shown in the figure below.

Figure 1: The Resource-Based View



Source: own draft; based on Barney, 1991 and Amit & Schoemaker, 1993.

The concept of *design thinking* is crucial for enterprises as well, especially, for their business strategies formulation and the performance. Similarly as the resource-based view, the design thinking approach can accelerate the life and performance of the enterprise. As formulated by Boland and Collopy, design thinking is reflected in management methods and organisational structures and processes as well as is at the core of effective strategy development, organisational change and constraint-sensitive problem solving (Boland and Collopy,



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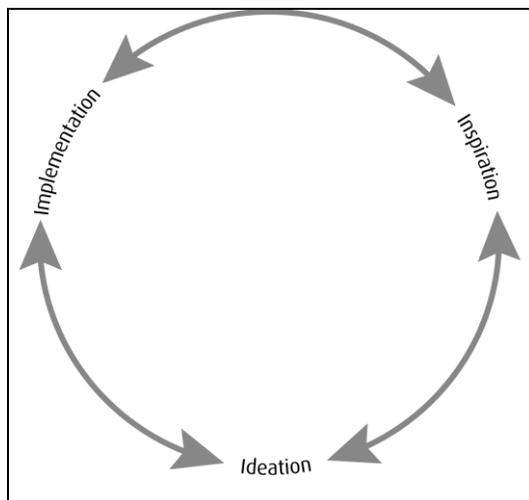


2004:17). Similar observations have been made by a series of scholars (Brown, 2004:22 and 2008:4; Dunne and Martin, 2007:512; Martin, 2005: 6; Best, 2011:17).

The reasoning behind the increasing design thinking in business and academic circles is that design thinking contributes to more innovations, better differentiation of brands, faster launch of products and services on the market as well as improved solutions to social problems (Brown and Wyatt, 2010: 32). Similarly, as stressed by Buchanan, design thinking has surprising implications for innovation (1992: 10). What is important in this context is the fact that during the design processes there is an essential need to consider not only the form and function, but to take into account distributions channels and other aspects as well, i.e. to bear in mind the whole system (Brown and Wyatt, 2010: 32).

In terms of design thinking as an approach applied in practice, it points to the core of the design process. From the conceptual point of view design thinking can be regarded as a process, a system of interfaces or intertwined processes. The scholars distinguish between three of them: inspiration (1), ideation (2) and implementation (3) (Brown and Wyatt, 2010: 33; Brown, 2008:4). The design thinking concept, as developed by Brown, is depicted below.

Figure 2: Design thinking concept



Source: own draft; based on Brown, 2008: 5.

*Innovation management* is usually associated with processes. As coined by Schmitt-Grohe (1972), these processes incorporate three key phases: idea generation (1), idea analysis (2) and idea implementation (3) (1972: 52). On the basis of these observations, Benkenstein (1998) has proposed the following innovation management concept, so-called innovation funnel. By drawing in his observations, the innovation management model includes four



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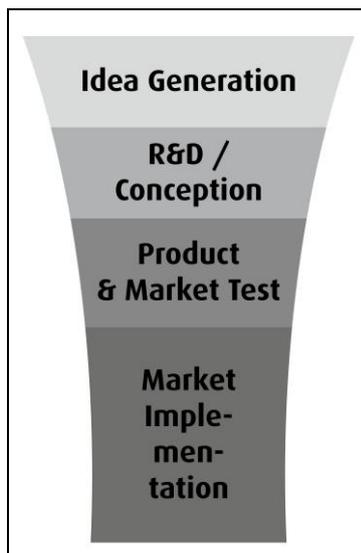


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stages: idea generation (1), research, development and conception (2), product and market test (3) and implementation (4) (see figure 3).

Figure 3: Innovation management model



Source: own draft; based on Benkenstein, 1998: 700.

Following Bartl (2008), *open innovation* is referred to the concept, which underscores the way of going beyond the corporate boundaries, i.e. an active strategic deployment of environmental clout or external factors of influence to increase its own innovation potential. Crucial determinants of such concept are the shift from the industrial society to the network-based knowledge and communication society. As a result, innovation occurs and ideas are generated in such a society through the interactive creation of value. Additionally, open innovation encompasses such manifestations as to be open for the knowledge of the other, generation of the knowledge as a joint action as well as the share of the knowledge with the other. Besides, an important role for the phenomenon open innovations plays the customer. In the course of innovation management, there was generated a new role model of the customer when developing new products or offering new services. In this sense, open innovation emerges also when the customer is involved into the process of generation. Therefore, it is vital to adapt to customers needs and requirements as well as wishes in the customer goods markets. Furthermore, it is essential to integrate the customer into the entrepreneurship innovation-related activities as a new external knowledge and ideas source (2008: 3-4).

*Sustainable entrepreneurship* is a relative new concept, which can be distinguished from economic and social entrepreneurship by stressing the efficiency and effectiveness in an inter-generational economic consideration for the future (Young and Tilley, 2006: 402). Thus, sustainable entrepreneurship is in line with entrepreneurs heading for profit and



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improving environmental sustainability and social conditions, i.e. considering the long-term economic and business consequences of new venture opportunities (Cohen and Winn, 2007: 35). One important problem of the on-going discussions about sustainable entrepreneurship is that the existing concepts are rather oriented on the needs and the situation of larger companies than on reality of the SME sector. When it comes to the implementation of sustainable entrepreneurship concepts, Gerlach (2003) proposes three strategies to reach sustainability in the context of entrepreneurship based on sufficiency, efficiency and consistency (Gerlach, 2003). However, strategies for sustainable entrepreneurship are not restricted to products, processes and materials. There is also a need for new business models in order to act competitive with sustainable products. New business models, i.e. sustainable business models, can deliver business advantages for sustainable products in marketing even with higher prices which will be illustrated by the following case study.

To keep in line with the sustainability in business, the Sustainable Design Centre in Berlin is a think tank on sustainable solutions. One interesting sustainable design object is a multiple useable teapot warmer that is built in small series and consists of high quality steel parts that are only stuck together. Compared to ordinary product, the price of the sustainable teapot warmer is higher. Hence, a new business model has to be marketed together with the product in order to support the marketing strategies. In this respect, the interested client will buy with the product the option to give back the teapot warmer after a certain time for a fixed price back to the producer in a comparable way like return bottles. Due to the high quality of the material and the stick-together technology of the product the producer is able to renovate the return parts and sell them again to the next client with the same business model. Therefore, this particular product integrating design and technology along with its specific business model results in a sustainable product that enjoys a multiple product lifetime and becomes competitive compared to traditional products that are bought and trashed after usage (Feucht, 2012).

Taking a closer look at theoretical concepts and approaches under scrutiny, these tend to interface at the respective points or to address same or similar questions from the corporates perspective. For instance, interdisciplinary nature, idea generation and implementation (Brown, 2008; Benkenstein, 1998), a broader view on the enterprise (internal and external factors), needs for solving problems, intertwined and on-going process from the fields of design, technology or innovation, and business, the sustainability factor etc. have been located in particular discourses regarding these concepts. However, what is at issue here is whether and how these introduced concepts and approaches elucidate and underpin the design management concept presented in the following.

### **3. Design Management Concept**

To begin with, the design management process starts with the specific needs. More specifically, in this particular context, it can be referred to specific triggers that can induce



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the design management process. Based on the specific enterprise-dependant situation, possible triggers can be specific problem the enterprise faces, for instance, dissatisfying business performance, increased competition on the market, decreased financial profits, needs to launch new product or service etc., or a more broadly defined problem, such as search for new opportunities for the enterprise, to maximise the benefits, to develop a new business strategy or a new way the enterprise is seeking to pursue. Broadly defined problems can be a result of changed environmental conditions, for example, new environmental regulations, changed customers and users behaviour etc. To recall the observations by Boland and Collopy on design thinking approach, it can accelerate effective strategy development, to undertake organisational change or just to solve any existing problem (Boland and Collopy, 2004: 17). By echoing Brown, the design management process can be induced as a result to react on something, either it would be the market, consumers or something else (Brown, 2008: 4). Therefore, this particular process, which can be generally labelled as problem formulation can be referred to in this particular context as the stage 0 (see figure 4). Brown and Wyatt define this process as the first stage of the design thinking concept, namely, inspiration space. The inspiration space implies the problem or opportunity that motivates people to search for solutions (Brown and Wyatt, 2010: 33), whereas Benkenstein labels it as idea generation phase (Benkenstein, 1998: 698).

Afterwards, the design management process turns to the analysis, which, in this particular context, encompasses the first and, to a certain extent, the second stage (stage 1 and stage 2). To be more precise, at the core of the respective analysis are the resources and capabilities as well as environmental clout or external factors of influence. Afterwards, the results gathered from the first stage are subject to the further examination on the second stage (see figure 4). In order to understand and follow this perspective, there is a need to consult the resource-based view.

As coined in several treatises (Rasche, 1994; Barney, 1991; Crook et al., 2008), the resource-based view facilitates the development of a strategy for a firm. By echoing Peteraf, the momentous potential of the approach prevails in applying it for corporate strategy, issues referring to the scope of the firm as well as for single business strategy (Peteraf, 1993: 187). In this light, it is reasonable to start the generation of a particular forthcoming business strategy by, first, identifying relevant resources. This process shapes the first stage of the design management process (figure 4). The point here is that an enterprise should strategically start with its internal analysis, i.e. recognise design management-relevant resources residing in design, technology and business fields, that, in turn, should meet four fundamental requirements, as determined by Barney (Barney, 1991: 105-106). The reasoning behind the idea to enhance the resource bundle by bringing in the fields of technology and business is that an enterprise as a complex and multilayer structure is equipped with resources that can be allocated to the fields of design, business and technology. Although there has been much discussion within the research discourses over the differentiation of resources in terms of types (Wernerfelt, 1984; Barney, 1991; Grant, 1991; Amit and Schoemaker, 1993;



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Hoopes et al., 2003), the paper offers a different perspective on the typology of potential resources. With regard to design management, the paper argues for classifying particular resources into three respective groups: creative (1), business (2) and technological (3) resources. Accordingly, all resources that fall within the scope of design and, respectively, business and technology will be located to the particular type of resources. What creative, business and technological resources can be identified is subject to a given enterprise, to a particular context etc. A key implication in this regard provide Crook et al. arguing that despite what type of a resource has been identified, resources do relate positively to performance regardless whether it is referred to resources in manufacturing versus service firms, diversified versus undiversified firms, and large versus small firms. The key argument is here that the link between performance and strategic resources is essential and relatively constant in numerous contexts (Crook et al., 2008: 1050-1052).

To optimise the concept of design management, the paper argues that the resource base should be enhanced by respective capabilities. An important issue in this particular context is the notion that capabilities are frequently developed in functional arrays, for instance, brand management and marketing or when combining physical, human and technological resources at the corporate level (Amit and Schoemaker, 1993: 35). Moreover, since within the RBV literature there emerged a distinction between resources and capabilities and their distinct role, capabilities do underpin the resource base (stage 1). Besides, the incorporation of capabilities appears to be necessary, since by echoing observations generated in the previous section, capabilities are of vital importance, as they reveal a firm's capacity to deploy resources identified. Similarly, as in case of resources, it was decided here to narrow down the typology of capabilities to the three groups: creative (1), business (2) and technological (3). To underline, each type of capabilities implies a capacity mixture of people and practices to enact these respective capabilities (Hoopes et al., 2003: 890). To exemplify, creative capabilities might imply designers and creative-based practices or even design department within a firm. Consequently, these capabilities individually or together can be valuable for their own or increase the value of resources. Within business capabilities, there can be mentioned, for instance, marketing, managerial, organisational, controlling etc. capabilities. Finally, product innovations or specific manufacturing practices can be ascribed to technological capabilities.

To complete the stage 1 of the design management process, it is inevitable to not restrict it to the internal analysis of a given enterprise (identification of resources and capabilities). By contrast, it is emphasised here that environmental conditions do have respective impact on the identification process of resources and capabilities. This statement is justified as follows. It might be accurate to underline that a successful performance of a firm is determined by the industry structure in which the firm is operating, and strategic behaviour of the firm (conduct) within this industry as well (Meffert and Burmann, 2002: 38). In addition, following Porter, a sustained performance of a firm derives from relevant competitive advantages gained due to appropriate positioning of this firm in attractive industries (Porter, 1996: 61). As a result, a



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firm's performance is significantly subject to external factors, i.e. opportunities and threats the firm faces with in its competitive environment, thus generating an outside-in or, respectively, external perspective. By drawing on these observations, it is argued here that the focus should be on both internal analysis of the enterprises strengths and weaknesses as well as external analysis of opportunities and threats. From the strategic point of view, essential in this context is the recognition of both perspectives, since both of them follow the same path, namely, to realise competitive advantages of a given firm (Möhlenbruch and von Wichert, 2007: 2). Beyond this, as emphasised by Meffert, what resources tend to be economically relevant it is the market that decides (Meffert, 2004: 297). By drawing on Wernerfelt, it is worth to recall the duality between markets and resources (Wernerfelt, 1995: 172). Besides, when recalling the concepts of design thinking, open innovation and innovation management, an essential role for the identification of external factors of influence do play customers and users, thus facilitating and accelerating the design management process. As has been pointed out by scholars, it is vital to consider and adapt to customers needs and requirements when solving existing problems or searching for new opportunities (Brown, 2004, 2008; Best, 2011; Benkenstein, 1998; Bartl, 2008). In this light, by incorporating and combining both internal (resources and capabilities) and external (environment, markets, consumers, customers, users etc.) perspectives to a particular enterprise, both approaches enable to generate a solid and balanced stage 1.

Turning now to the stage 2, particular resources and capabilities should be recognised as a whole, coherent and consistent. It should be treated as a complexity. Of particular importance is in this regard the interplay and mutual complementation of each bundle of resources and capabilities. To recall the previous statements, stage 2 entails an analysis that has been started on stage 1. Besides, the stage 2 can refer to the analysis of the first results gathered during the first stage. To compare with other relevant concepts and approaches adapted here, the design thinking concept refers in this case to the ideation stage, whereas the innovation management model incorporates the conception and testing phases. However, also the stages or phases have been labelled differently in different context, when compared to the stage 2, as proposed here, all these appear to yield sound and similar reference potential. More precisely, in this particular case, it is the interplay phase meant. It was labelled in a broader sense, since it may imply the interplay of diverse resources, capabilities and external factors. For instance, human capital, when designer, engineer and economist are working together (or are involved into the analysis process, stage 2) on the same problem solution or a new perspective / opportunity. In other cases, the interplay may refer to tangible or intangible resources, capabilities, when developing a new product or a service, respectively. On the contrast, in design thinking discourses, similar processes have been labelled as the ideation phase, i.e. phase starting after having observed and done specific case-based research. During such ideation phase, there are addressed such processes as, for example, going through a process of synthesis in which the first results are distilled, or multiplication of the options, generation of alternative choices and visions (Brown and Wyatt, 2010: 34). Finally, in the classical innovation management model, similar processes may expand over two stages, i.e. research,



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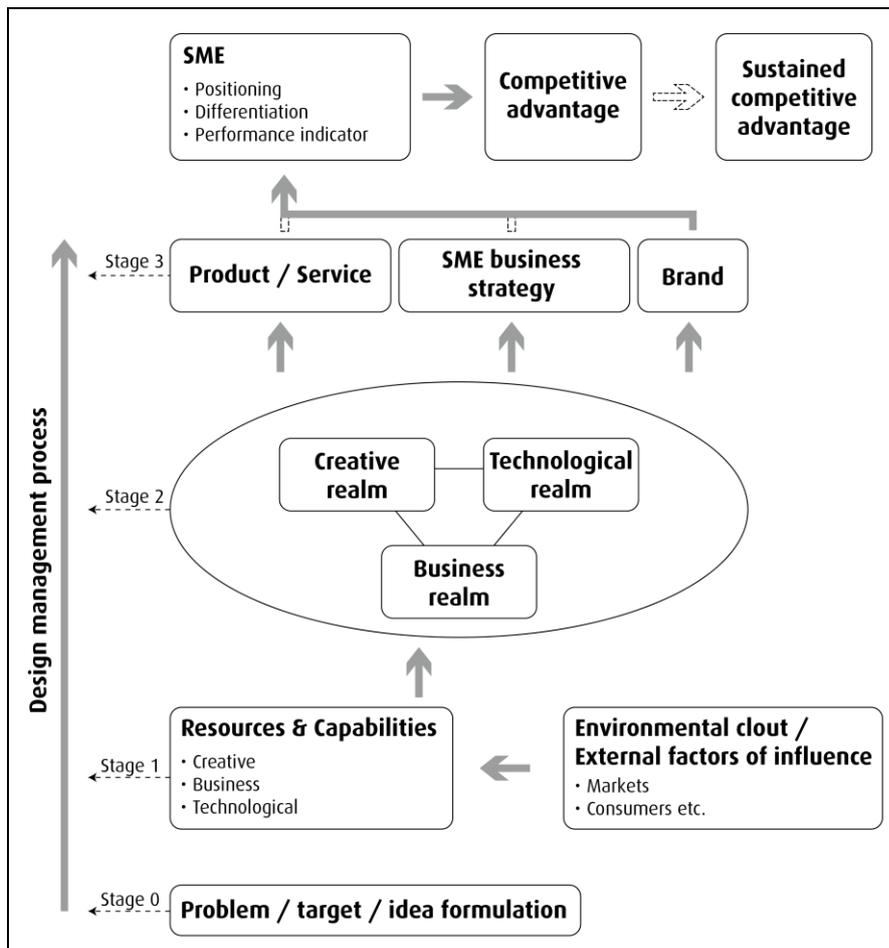
development and conception stage as well as product and market test stage, since they both are dedicated to examination of either the idea generated or the first prototype developed. (Benkenstein, 1998: 699).

In response to the observations gathered from the respective concepts and approaches, three particular realms have been conceptualised at stage 2: creative, business and technological realm. In concrete terms, within each realm, there meet, by drawing on Barney's observations (1991), all assets, capabilities, organisational processes, firm attributes, information, knowledge that can be ascribed to this particular array. In this light, it is argued that the consistent, coherent, balanced and manifold interplay of three arrays can result in a stage 3, which is called in this respect the implementation stage. Hence, the interplay can result in diverse outcomes. Essential here is therefore what problem or idea formulation was undertaken on stage 1. If, for instance, on stage 0 there was articulated the need for changes in a product or service or the response to launch a new product or service, then the result on stage 3 could be the changed or new product or service, respectively. In this particular context, there can be three possible results: product or service (1), solid business strategy for an enterprise (2) and emergence of a brand (3) thus paving the way for the future development and contributing to the performance of the particular enterprise (see stage 3). As a result, based on the initial situation, the outcomes of the interplay process can be either very specific or very broad. Similar observations have been located in design thinking and innovation management concepts. By echoing Brown and Wyatt, in the implementation space the ideas generated are turned into actual products and services that, in turn, are accordingly tested, iterated and refined (Brown and Wyatt, 2010: 35). Similarly proposition has been made by Benkenstein, since the scholar points out that implementation stage deals with the placement of particular products or services on the market (Benkenstein, 1998: 700). As it is apparent from the comparison, both observations from Brown and Wyatt as well as Benkenstein do reveal nearly the same reference base.

To finalise the perception of design management in this particular context, on the basis of the design management concept proposed (see figure 4), design management can be defined as a coherent and manifold development process of an enterprise, whereby all strategically essential methods, means and tools from the creative, business and technological realm are accumulated and deployed effectively. Similarly, but in other words, design management refers to the process that starts with the problem / target or idea formulation, then turns to the resources, capabilities and external factors identification and analysis phase, which results in the following interplay phase with the analysis at the core, and is rounded out by the implementation stage with the results that reflect the formulations made within the first stage, whereby design management process reveals the capability to contribute to the competitive and, in turn, sustained competitive advantage. Advantages of the design management concept can be articulated in the following way. First, the design management concept enables its flexible application. When scrutinising the concept, it has been frequently advocated that the concept is oriented on enterprises despite their size, industry in which they are operating and

other preconditions. Second, the concept has unveiled the interface between diverse approaches and concepts adapted here. Finally, it underpins the idea of design management as a coherent and manifold process, thus simplifying the generation of a business strategy.

Figure 4: The design management concept



Source: own draft; based on the concepts adapted.

#### 4. Methods

In the phase of the research process aimed at designing solid scenarios for the design management concept integration into the business activities of an enterprise and evaluating its contribution to the business performance, the paper has pursued a manifold research path, whereby diverse research methods have been combined with the respective research approach and research tool. Five techniques were employed in exploring the objectives of the present paper:



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- Research types: analytical, qualitative, empirical, practice-based
- Research approach: qualitative
- Research methods: descriptive and qualitative – case studies, semi-structured interviews, expert assessments, workshop presentations and observations
- Research tools: modified design management concept
- Research scope: 2 training sessions in Wismar (April 2012) and Gdynia (July 2012).

The reasoning behind the selection of the following techniques in the research process is elaborated in the following.

Regarding the *research types*, the paper has chosen analytical, qualitative, empirical and practice-based way, since during the research process the facts and empirical evidence gathered were appropriately analysed and subject to a critical assessment. Since there were used qualitative research methods that were applied during the DesignSHIP project implementation stage, the research process may be regarded as qualitative and practice-based. Empirical is the research conducted in a way, since the research process was built upon regional / local case studies (real-life scenarios), observations, assessments and other types of evidence gathered in the frame of the DesignSHIP project. As a result, at the core of the research process is the qualitative *research approach*. To underpin these statements, qualitative research approach has been frequently utilised for the research purposes within academic design management research and related discourses, e.g. Borja de Mozota, 1990; 2006; Hart, 1989 and a series of studies conducted by the Design Management Institute (DMI), USA.

Similarly as in case of the research approach, design management related academic writings usually deploy a case study, for example, studies conducted by the DMI, or Borja de Mozota, 2006. In terms of the research methods utilised in this paper, the paper follows descriptive and qualitative *research methods*, a case study being as a point of departure within the research process. In this light, the EU cross-border project “DesignSHIP – Integration of Students, Graduates and SME’s in terms of Industrial Design Management” within the South Baltic Cross-border Co-operation Programme 2007-2013 serves as a case study for the present research purpose. Additionally, during the implementation phase of this project there were utilised regional / local case studies referred to as the real-life scenarios, semi-structured interviews, expert assessments, workshop presentations and observations. The body of empirical evidence resulted from the application of the respective methods was gathered within the time frame from April to July 2012, thus generating quite short-term *research scope*. Finally, the design management concept introduced in the previous section was applied as a *research tool*. It may be stated, however, that the concept in question was slightly modified, since it has been utilised within the DesignSHIP project for the educational and training purposes. The modifications will be discussed after having introduced the case study more in-depth.



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The INTERREG IVA project DesignSHIP was approved by the European Union in summer 2011 as a response to the need to integrate young current and future professionals, start-ups and SMEs into the design management-related discourses, i.e. to exchange and transfer the knowledge of implementing design management concepts and skills gained into the business activities. Besides, it was argued that the deployment of design management techniques and tools in the South Baltic Sea Region (SBSR) is distributed very uneven. While some SBSR regions take a leading position in the field of design management, others do lack sound design management-related knowledge and good command or capabilities of utilising it for specific purposes. Therefore, the DesignSHIP project that has been launched last year should serve as a solid breeding ground to tackle these particular irregularities prevailing in the region and to explore how design management can meet the challenges and bottlenecks faced in terms of business performance, increased competition etc. as well as to boost the competitiveness, economic and social innovations in the SBSR leading to more sustainable development. The objectives set will be implemented in the course of interdisciplinary education and labour trainings, knowledge transfer and exchange of best practices among young students, young professionals, start-ups and SMEs from the fields of design, technology and business through stimulating the design management concepts in the SBSR. As a result, the DesignSHIP project may be regarded and labelled as a laboratory to test and employ the sound design management concepts as well as to strengthen the regional competence and potential in the field of design management.

In this light, the design management concept, as proposed in chapter 3, has been introduced and applied in the DesignSHIP project. Since it has been planned to employ the concept for education and training purposes during the training sessions, the concept was subject to some adaptations. The training session in Wismar has made the use of the adapted concept for the first time. Respectively, in order “to practice” design management, the design management concept has been prepared for the training sessions to be employed as a process, which passes through three respective arrays of design, technology and business, whereby the process itself has been labelled as a design management consultation carried out by five diverse interdisciplinary groups consisting of graduates, young professionals and representatives of start-ups and SMEs. The interdisciplinary nature of each consultation group is ensured in a sense, since each group is mixed of designers, engineers and economists. The consultation groups are counselled and coached by experts and professionals from the fields of design, technology and business. The applied design management concept or, in other words, the design management consultation starts with an analysis of three arrays of a particular enterprise and results in a generation of the enterprise development concept encompassing the fields of design, technology and business. Regarding the time frame, the design management consultation is limited to 3-4 days. For the design management consultation, there are utilised regional or local case studies. More specifically, design management consultation is undertaken for an enterprise from the location where the training session is undertaken. Consequently, each design management consultation yields different results in respect to a given situation. In project implementation-related discourse, the particular design



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management consultation embraces workshops, interim and final participants presentations of enterprise development concepts and their evaluation, expert observations and assessments. In such a way, the design management consultation ensures the education and training of participants. What results design management consultations and, respectively, the design management concept yielded in Wismar and Gdynia is discussed in the following chapter.

## 5. Findings

Although the training sessions within the DesignSHIP project have been implemented in Wismar and Gdynia, a special focus in the present paper has been laid on the findings from the first training session. Nevertheless, the results gained from the second training session in Gdynia are discussed too. However, the scope of the results is limited due the fact that the last training session in 2012, which takes places in Stockholm, will be carried out as continuation of the second one. As a result, the second training session enabled to analyse and evaluate only first observations. The findings are presented in relation to the effects of the training sessions on the four key determinants:

- (1) Applied design management concept
- (2) Participants of the training sessions
- (3) A given enterprise
- (4) Perceptions towards design management.

Training session in Wismar

- (1) Applied design management concept

The implementation of the design management concept in Wismar, i.e. undertaken consultation in terms of design management by single groups resulted in generating essential conditions and a basis for the future development of a given enterprise (including all possible outcomes, i.e. products, business strategy of a given enterprise and emergence of a brand). It may be stated, however, that the development of a given enterprise was concentrated more towards the aim of how the enterprise may evolve into a brand. Here, it was argued that the design management process results into a brand in an optimal way (see figure 4). This perspective has been focused on as a response to the working approach adapted. More specifically, the starting point of the analysis of the involved enterprise was the marketing (outside-in perspective) and management (inside-out perspective) relevant aspects, i.e. the perception of a given enterprise with its products, management and business structures internally and externally. At the core of the design management process were addressed objectives, such as how a given enterprise might be transferred into a brand and what possible feasible way should it pursue etc. Bearing in mind these observations, the working approach in Wismar was to solve the enterprise marketing and management-related objectives with a strategy of design process, i.e. to take into consideration the enterprise as a complex system,



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as a unity (here, in parallel with the design thinking approach, as introduced by Brown, 2008) and to scrutinise it with the design tools. In this sense, the working approach adopted in Wismar refers to “designing the management process”, whereby design is considered as a significant creative factor of all three fields that incorporates design-immanent, technological and business structures. In this respect, the working process was split among and implemented by the five interdisciplinary design management consultation groups. Analytical phases were undertaken by employing the so-called checklists (described in the following). Afterwards, the results gathered from the analysis phases contributed to the problem formulation, whereby each particular design management consultation group arrived at a different enterprise-oriented problem formulation. Hence, different problem formulations led to different results, which are reflected in the group presentations (compliance with the design management concept, figure 4). Moreover, since there was followed the design-oriented working approach, the group work was controlled in relation to the specific situation, i.e. the objective was not clearly defined, and the groups controlled their work mutually. In other words, due to the interim presentations of the design management consultation teams in plenum, the teams were able to reflect upon and criticise constructively each other achievements. Besides, the interim presentations and internal feedback rounds from group members with diverse disciplinary background within the groups enabled to crystallise and articulate the problem more precisely. The final presentations resulted in scenarios or directions proposed for the involved enterprise. These proposed solutions, as discussed below, were supported through internal feedbacks from the experts following the group work and giving feedbacks, thus acting as coaches for the internal feedback rounds. In order to ensure the multidisciplinary character, the expert team was interdisciplinary as well, ranging from designers to economists and managers. As a result, this revolutionary approach led to the following findings.

In terms of the implementation stage (figure 4), there were consolidated perceptions that a brand involves much more than only the field of design. Concentration of the focus nearly only on design may negatively affect business practices. By echoing the observations of experts, the designer, economist and engineer should work together for a specific purpose as well as to represent an enterprise as a complex structure. Besides, by combining structures from the design, technology and business field, an enterprise may be perceived as a consistent and coherent entity. Nevertheless, this last observation may be subject to criticism, as nearly in many SMEs, it is the manager who takes almost all decisions, either they would be design or technology-related. It may be stated, however, that there is no doubt about more similar limitations. But turning back from this excursus, by deploying the design management concept that passes through all stages and integrates the creative, technological and business realm, it is possible to trace the directions of an enterprise to become a brand. In other words, brand functions only with solid technology (high product or service quality), enterprise structures and professional appearance or perception externally.



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Furthermore, the design management concept, as it is apparent from the training session and the conducted design management consultation, implies a consistent and coherent, non-hierarchical and multidisciplinary interplay of design, technology and business. As a result, the undertaken design management consultations clearly contributed to the facilitation of interdisciplinary teams. To be more precise, respective design management consultations demonstrated how does the bringing together designers, engineers and economists function and can be utilised efficiently. The interdisciplinary groups were sensitised to reflect upon and recognise that a designer, an engineer and an economist do possess a different working approach, a different way of thinking and speaks specific different language. Hence, the design management consultations by the interdisciplinary teams made a contribution to understand them that there is no common language when working on a specific problem, project, product development etc., but there is an essential need to find a common communication basis. Consequently, of a significant importance has been to recognise the differences of the other and to make them useful for own process implementation. These implications can be underpinned by the observations from participants and experts. As has been pointed out, an important implication of close dovetailing of the design, technology and business realm is the communication within an enterprise, i.e. cooperation and communication as well as mutual interdependence patterns between designer, engineer and manager.

Finally, the design management consultations (in total 5), as carried out by five consultant groups, worked out in Wismar a list of measures for possible development scenarios of a given enterprise, which, in turn, can employ them in order to develop and become successfully marketed in a way that appears permanently profitable. The key clue is that there have been involved multidisciplinary teams into the design management process. A significant excursus might be made here when echoing some topical academic writings and papers. As pointed out by Kotler and Rath, a common mistake of the firm's management is to bring designers into the development process to late or to bring the wrong type of designer (Kotler and Rath, 1993: 19). Similar propositions can be found in writings of Brown (2008) and Ott (2005) underscoring that neglect of the coherent, consistent and simultaneous interplay of the creative, business and technological realm may jeopardise enterprise business performance what, in turns, impedes concrete performance gains. By bringing the designer, following Kotler and Rath (1993), not in the first stage when the idea generation process occurs, but in stage when the product (problem etc.) development process is carried out, can have several implications. To exemplify, it is mostly hard to change the design-related attributes, such as the logo, the enterprise name or its marketing activities when the enterprise is operating on the market, as reflected upon by experts on the basis of the enterprise analysis.

## (2) Participants of the training session

Clear implications have been drawn up in relation to the participants of the training session in Wismar. Based on the expert evaluations and observations, the working approach adapted



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resulted in several advantages. Although the time frame for the design management consultation for a given enterprise was quite limited, the participants managed to solve to key objectives.

First, participants were able to undertake both fast and in-depth analysis of the enterprise structures (management, marketing etc.) within three realms of design, technology and business. An important aid in this particular case was the so-called checklists. To give more detailed information, each of the checklists was comprised of questions, statements etc. that pinpoint particular resources, capabilities and external factors of influence (e.g. consumers, market environment etc.) of an enterprise that may reside in all three fields. Consequently, each design management consultant or, in other words, participant dealing with the analysis of the involved SME, was provided with three checklists. These resources, capabilities and external factors of influence located in the respective checklist served as a trigger to start the analysis. On the basis of the checklists and from the analysis it was apparent that the most apparent and tangible field was the design one. The rationale behind this observation may be that the design reflects not only the decisions made by the decision maker of the given enterprise. On the contrary, design witnesses both, decision of the management, the product and the communication of the enterprise.

Second, the design management consultations, as implemented by the participants, resulted into draft proposals / agendas / scenarios that, in turn, may serve as a trigger for the new orientation or direction of the enterprise. To underline, the key result was to provide the enterprise with the new possible directions towards the design management strategy, i.e. towards the interplay of the three fields of design, technology and business. In such a manner, the participants showed a way the enterprise should pursue.

Third, participants gained the insight that the processes, which may lead to the external and internal appearance of an enterprise or its business strategy, are directly interrelated. For this special observation, there is a need to dovetail these three arrays and work more jointly. It is worth mentioning that this unveiled aspect witnesses the sustainable character of the design management concept. To justify, the insights gained are of long-term importance for the participants, since as potential future managers they would have command of how working interdisciplinary is necessary. Besides, the tacit knowledge gathered during the design management consultations to follow the cross-sectoral working approach would be profitable. Generally, the design management concept deployed indicated that it is possible to work on with specific tasks or to work out respective guidelines for business development solutions within the frame of three days, to get familiar with an enterprise they will deal with, to increase the knowledge of design management as an consistent, coherent and multidisciplinary process as well as to familiarise with the fields in which they do not possess any specific knowledge.

(3) A given enterprise



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From this particular perspective, it can be argued from the analysis of the data that the design management concept, as applied during the training session, yielded some fundamental results and insights for the enterprise. To begin with, the design management concept applied to the particular enterprise can be considered as a feasible framework to go through for the enterprise. As a result of the design management consultations, the enterprise decided to deploy some of the most feasible agendas and scenarios for its future development. To exemplify, one of the design management consultations brought out that the enterprise has to rethink its current stakeholders and target groups. Based on these insights, as proposed by the consultation group, the enterprise has taken already the first steps and generated a strategy to approach the new defined target groups. Moreover, the decision makers of the SME became aware about the problems they really face. As articulated in the results of the design management consultations that were reflected in the participants presentations, the enterprise was sensitised to change the way of thinking and handling. It was clearly stated that the changes have to be undertaken within the area of management, its internal and external appearance as well as the product itself. However, more precise observations on what implications the approach adapted did generate for the enterprise, was only feasible to reveal after the training session in Wismar, i.e. after the SME has reflected upon the proposed solutions etc. By drawing on the results from the semi-structured interview with the representatives of the enterprise after few months behind the training session, these results may be articulated more precisely. By echoing the most significant points, the participation in the training session and the employment of the enterprise as a regional case study was initiated due to the bottlenecks faced and unused potential for improvements. After the training session, all proposals made by the consultation groups were actively scrutinised. As a result, there were chosen the most optimal and feasible scenarios. First of all, these ones were subject to the SWOT analysis, which is considered to be at the core of the management process of the enterprise. Consequently, the enterprise stuck to some of the ideas generated. To compare, before the participation in the design management process, the representatives of the enterprise were aware of the main determinants, i.e. functionality of the product and its end users. Afterwards, they started to perceive the enterprise as a whole process, a general planning process of the enterprise performance as well as how it is perceived externally.

To summarise, the focus has been placed on two key issues. First one refers to the fact that the SME in question started to reflect upon how it can communicate externally, i.e. which direction does it want to pursue, who does it want to approach and which message should be used in such a case. As a result of reflections, the focus has been laid on the fact not to concentrate on the end target group, but to address manifold target groups. The reasoning behind this approach was the same language multiple target groups share as well as very precise marketing strategies and measures to be undertaken. Besides, this approach facilitated the way of contacting potential stakeholders, since due to the local network the SME is able to address the stakeholders directly, i.e. to take the advantages of the value chain, thus saving expenses and time, otherwise needed to contact potential stakeholders directly. Beyond this, the SME started to reflect on the key questions, such as what should be the message it wants



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to communicate, how to communicate, in what sense has the product to be changed according to the needs and demands of the identified target groups. As a result, it may be argued that the management process affects the design process, since based on the management decisions, there are needed product changes that, in turn, are to be traced back to the design-immanent aspects. Additionally, after having identified the new target groups, the SME has to reconsider the marketing strategies and the appearance externally, for instance, to change flyers, advertisement material etc. Hence, the employment of the SME as a case study during the training session in Wismar induced it to conduct professional target group analysis.

The second key issue refers to the product itself the SME has marketed. Consequently, the SME managers realised what product do they sell actually. To justify, there was articulated some confusions by the design management consultation groups what product is dealt with. In this case, not clearly specified and communicated product was one of the problem formulations addressed by the participants groups. To summarise the main implications for the SME, it can be built on the observations expressed by the SME managers. By echoing them, the inputs of the consultation groups were more efficiently the more strategically oriented were the proposed solutions. On the basis of these strategic scenarios the SME was able to distil the essentials.

#### (4) Perceptions towards design management

Taking a closer look at the expert assessments and observations made within the scope of the research, it may be argued that there were gathered more in-depth understanding of design management. However, to underline, there were located different perceptions on the design management as a concept among experts. After distilling the data gathered, the general finding that was made pointed to the fact that among the experts from the management or business-led disciplines, there prevails the perception of design management as a management of the design process. To exemplify, design management was conceived as the use of methods in order to develop an idea that is needed for innovations, and encompasses such processes as start of innovation, problem solution and beginning of the solution (expert with economic background). Besides, again, there was underscored the need to involve the designer into the process from the beginning and keep involved him through the whole innovation process. In this light, the observations gathered, it may be stated, do significantly correlate with the design thinking concept and the reflections articulated by Brown. In other two cases, where there were interviewed experts from management and economics disciplines, the findings were similar. Whereas one interviewer considered design management as a part of marketing mix / product management, the other correlated it with the business space that interacts with the design realm. The need for management of the design process was perceived in a similar way as in the management-led discourses. By echoing the interviewers, design management provides the designer with structures, frames and spaces in order to design good products. Besides, design management is employed by the company either to solve existing problems, boost business performance and profit, or create a



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good value of the products / services for the customers. An important role of the designer is to familiarise the company with the command how to use the technological resources efficiently. Hence, designer is essential in terms of ergonomics. An important perspective on design management was that in terms of product, design management refers to design of the public relations of the company, or is closely related to the corporate identity and the vision of the company.

### Training session in Gdynia

As has been previously mentioned, the training session in Gdynia has provided so far vague insights, since the results will be finalised and articulated during the last training session of this year. However, some of the findings were generated here on the basis on observations and interim presentations. To underline, the findings from Gdynia have not been split into the diverse groups of findings as in case of Wismar, since there have been covered so far just some of the aspects. Therefore, it is not possible to employ the allocation to the key determinants, as has been made in presenting the results from Wismar.

Although the training session in Gdynia followed the same general procedure, i.e. working with interdisciplinary teams, employing a regional enterprise as a case study and distilling the interim presentations in order to arrive at solutions at the end of the process, there were adapted some different methods. One of the main findings in this respect appears the different approach applied, when compared with the working approach utilised in Wismar. More specifically, in order to implement the design management process in Gdynia, the point for departure was the precisely defined design-related problems. In contrast to Wismar, where there was used one defined objective, there have been articulated five design-related problems for each individual design management consultation group in Gdynia. Besides, particular enterprise-based problems were defined by the given enterprise itself and distributed to the design management consultation groups (participants). Afterwards, the design management consultation groups were provided with the brief of the enterprise, which served for the working process as guideline.

With respect to these observations, it may be stated that, in contrast to Wismar approach, the Gdynia training session was built upon managing the design process, particularly, using the management process, methods and techniques (e.g., structures, double diamond etc.) in order to solve the design-immanent problems (in this particular case, product or product line changes etc.). Hence, the focus has been laid on how to improve the particular product and product design. One of the main outcomes so far in Gdynia was to reveal to what extent the design process can be structured. One of the reasons behind this implication might be that the working approach evolved and was implemented by the specialists from the economics and management. Similarly, as observed in case of perception on design management, experts or professionals with economic or management background tend to focus more on the management aspects and utilise design within the management processes and structures.



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## 6. Discussion

Perceiving design management provides the terrain for manifold dispute. What and how design management can be reflected on and employed is highly dependant on the perspective from which it is dealt with: design, technology and economics or business-oriented view. The training session in Wismar revealed, however, that although there are mushrooming diverse interpretations of design management in academic and professional field, bearing in mind the findings from the research scope, the contribution of design management to the problem solutions, marketing strategies, search for new opportunities etc. is inevitable.

The design management working approach applied in Wismar yielded advantages for both participants and the enterprise. To underline, as pointed out by the experts, the design management concept facilitated the process of unveiling potential solutions that possess deep strategic foundation and went far behind the existing strategic solutions of the involved SME. Besides, even within the short-term, the participants were able to generate solid strategic design management-related solutions.

In this light, the concept appears to be very flexible and useful in a multiple way. By building upon the proposed design management concept it is possible to familiarise the participants and the enterprise with the knowledge in design management. Especially on organisational level, it is an essential insight. How it was observed in Wismar, enterprises lacking knowledge in design management are “locked” in their structures, activities and perceptions. After having got this particular knowledge, enterprises are induced to initiate the rethinking process, i.e. to reconsider and reflect on their practices. Hence, the utilisation of the design management-related knowledge may imply generation of new development strategies, new or renewed marketing strategies, to help understand that designer, engineer and manager do communicate in a different way, thus increasing the awareness about the need of their cooperation. In other words, the interface of design, technology and business brought together into the design management concept and the interplay of these three realms facilitate the interaction and learning process within the enterprise by using the central competences of the different professions. As a result of the intensive and consistent interface and interplay of three arrays, there may be minimised time and expenditures in all processes of the enterprise what, in turn, facilitates and accelerates the decision-making processes. Hence, all development processes can be implemented more efficiently as well as difficulties and misunderstandings avoided in cross-sectoral projects. In this sense, the interplay will not only imply reduced costs but also increase the quality of internal enterprise-based processes, projects, products or services and the perception of the enterprise in the public realm. Finally, the interplay contributes to the generation of innovative solutions, as it was witnessed during the training session in Wismar. On the basis of the cross-sectoral approach, there emerged new ideas and possible solutions for the existing problems from the design, technology and business perspective, thus increasing the potential to innovate. As a result, design management knowledge and the utilisation of the particular design management concept



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enable enterprises to build capability in terms of launching new products or services or even making specific modifications to them according to the proposed solutions, to determine key success factors, to define business opportunities as well as enhance control over the business activities of the enterprise ranging from designing to marketing, i.e. to get new insights into all the processes of the enterprise, its structure, behaviour and, finally, the visual and emotional result to the customers. What may be stated as the main clue is that design management process and the knowledge got change not only perspective and perception of the actual situation, but also and more important, induce to react, thus changing the behaviour patterns of the enterprise.

## 7. Implications and further research

In exploring design management and its role for SMEs, the paper has argued for the consistent and coherent interdisciplinary design management concept. The analysis of findings shows that the design management concept and its application may provide a breeding ground for enterprises in terms of performance, competition, innovation, appearance etc. The utilised design management approach appears to be flexible and multifunctional, as has been justified through the analytical phases. Nevertheless, the research so far implies several shortcomings. First, since the application of the proposed design management concept was employed more for education and training purposes, there is a need to examine its implications on the SME sector more intensively. This research objective might be accomplished due to an in-depth analysis of a series of case studies and their comparison. By bearing on this proposition, the lack of the finalised data from interviews, observations and expert assessments from the second training session has significantly reduced the comparison possibility in this particular research. A more intensive comparison of case studies from Wismar and Gdynia can be realised only in the next future after having finalised the started training session in Stockholm. Besides, after having articulated the results from the training session in Gdynia, combined and compared them in Stockholm, it is possible to validate the design management concept, since from the results gathered it will be apparent if the concept has functioned through the whole training and education phase. In this sense, the concept proposed could be efficiently utilised not only for education and training purposes in terms of design management, but, and more important, to be deployed in enterprises as a complex consultation approach.

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## **ENTREPRENEURSHIP ABILITY ON ECOTOURISM SERVICES OF LOCAL PEOPLE IN TAMAN NASIONAL BROMO TENGGER SEMERU, MALANG REGENCY, JAWA TIMUR, INDONESIA**

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### **ABSTRACT**

*Entrepreneurship is the key word for the local people able to run ecotourism services. Ecotourism services as an economic approach to optimize the benefits from the social aspects and ecology. Ecotourism should be interpreted as farming that could provide jobs, and generate revenue. The study aims to measure an entrepreneurial capacity of local people in economic activities. The survey has been conducted on the Ngadas and Ranu Pane village, under the Bromo Tengger Semeru National Park (BTSNP) area authority. Ecotourism products and services in BTSNP is diverse, ranging from the sand ocean scenery and the crater of Bromo, Semeru ascent, flora and fauna, to the culture of Kasodo and Karo.*

*In Ngadas and Ranu Pane village, local people of the Tengger or Javanese tribes able to play a role in transportation service, lodging, food and beverage stalls or packaging of traditional cultural attractions. Ecotourism business is run with simple management.*

*The analysis method of farming option (farm or ecotourism) used a binary logistic regression. Results showed that variables of facilities, experiences and entrepreneurship score showed a positive effect to the tendency of mixed farming, each with a coefficient of 1.1522, 1.6928 and 0.15599. The three variables become a source of inspiration for local people into the entrepreneurial learning process and forming productive behavior in the ecotourism development.*



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*Entrepreneurship test result showed that score on farmers was lower than people that trying to business mix (farmer and ecotourism). Most of the people have been involved in tourism development programs of Bromo Tengger Semeru National Park (BTSNP), but the experience has not been produced real benefits to welfare. Therefore the local people need workshops by the relevant stakeholders to improve their skills and knowledge about agriculture, entrepreneurship and ecotourism. This workshops are expected able to increase their income. Besides, in line with the local government program for the tourism development through Ngadas village, it would require upgrading and improvement of road transport and electricity. Promoting tour to the BTSNP via Ngadas village also needs to be encouraged by the local government.*

*Keywords :*

*Entrepreneurship ability, ecotourism, mixed farming, community-based ecotourism*

## **1.Introduction**

East Java, Indonesia has a promising potential for ecotourism development. There are several underlying reasons. *First*, the geography of the East Java region adjacent to the tourist destination of Bali, and Yogyakarta. Jawa Timur is generally regarded as the tourist destination, or complement of the main objectives planned. *Second*, East Java has four national parks (NP) as ecotourism destination areas, namely Bromo Tengger Semeru, Meru Betiri, Baluran and Alas Purwo National parks. In general, four national parks have not produced significant benefits but ecological benefits. *Third*, the social factors surrounding areas need attention in order to have an impact on welfare. Local people around national parks are generally working in the agricultural sector with low capacity farm. Forest and the surrounding environment need to be managed well in order to produce tangible benefits. Entrepreneurship is the key word for the local people able to run ecotourism services.

Improving the ability of entrepreneurship is the key word for the local people are able to operate ecotourism services and enjoy prosperity. The learning process is very important for them to understand the entrepreneurial ecotourism (Juma and Timmer, 2003). Thus, ecotourism can be defined as farming business that could provide jobs and livelihood, as well as generate income and welfare (Nugroho, 2007).



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Efforts to identify the ability of ecotourism services of local people can be the entrance to develop it systematically in the future. For example, Ngadas villagers have experience of interaction with Bromo Tengger Semeru National Park (BTSNP) is long enough (Nugroho, 2006; 2007; Negara, 2006; Nugroho and Negara, 2008). They are often involved in tourism development programs from BTSNP, representing the role of government. However, these experiences have not fully produce tangible benefits in developing ecotourism business services. The results of research showed that the entrepreneurship factor of government does not significantly encourage entrepreneurial locals. Individual entrepreneurship actually born as a result driven by factor of entrepreneurship social. It is unfortunate that the advantages of local cultural values have not been able to accommodate and operate the business benefits of ecotourism services.

The previous studies were conducted to provide the foundation and initial description of the research to be conducted. While fundamental research (Nugroho, 2008; Nugroho, Nugroho and Negara, 2009) succeeded in measuring the entrepreneurial score of individual, social and government in three villages in the area of BTSNP. Studies have also managed to develop entrepreneurial structure, which can explain the factors that influence the development of local entrepreneurship. Findings from the study or survey description above, still within the scope of the excavation perceptions about entrepreneurship. This study tried to enter the scope of real economic activity ecotourism. Both are capital for the preparation of tourism development model based on the local people.

Preliminary studies and surveys in the form of the description above, is still reviewing or developing concepts on the basis of perceptions about entrepreneurship. The building concept is still to be tested or fitted with the phenomenon of real economic activity in ecotourism services. This study tried to enter the space of real economic activity by measuring economic performance and assess the needs for the preparation of tourism development model based on the local people. The study aims to measure the capacity of local people in economic activity, by measuring the tendency of option business (farm or business mix).

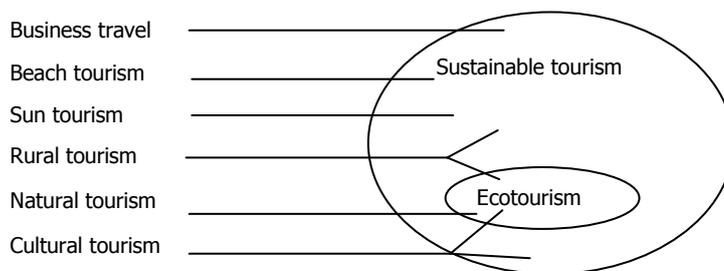
## **2. The Purpose of The Study**

The study aims to measure the capacity of local people in economic activities in farming or ecotourism.

## **3. Theoretical Background**

### **3.1. Ecotourism**

Ecotourism is a part of sustainable tourism. Sustainable tourism is an economy sector that broader than ecotourism that includes sectors supporting tourism activities in general, including marine tourism (beach and sun tourism), rural tourism (rural and agro-tourism), nature (natural tourism), cultural tourism or a business trip (business travel). Figure 1 shows that ecotourism rests on three legs at once, ie, rural tourism, nature tourism and cultural tourism. According to the declaration of Quebec in 2002, ecotourism is sustainable tourism that specifically includes the following efforts: (i) the conservation of nature and culture, (ii) participation of local people to enjoy the welfare, (iii) transfer of knowledge about the cultural and natural heritage to visitors, (iv) the form of independent travel or small tour groups.



**Figure 1. Sustainable tourism and ecotourism (Wood, 2002)**

Based on the concept or the definition above, the authors summarize as follows:

*“Ecotourism is an activity packaged in a professional travel, trained, and includes elements of education, as a sector / economic enterprises, which consider the cultural heritage, participation and the welfare of local people and also conservation efforts of natural resources and environment”.*

### 3.2. Community-Based Ecotourism



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Community-Based Ecotourism is an ecotourism business that owned, managed and supervised by the local community. Society plays an active role in tourism development activities from planning, implementation, monitoring and evaluation. Results ecotourism activities may be enjoyed by as many local people. So in this case the community has adequate authority to control the activities of ecotourism.

Ecotourism is a community-based ecotourism business that focuses on the active role of the community. It is based on the fact that people have knowledge about nature and culture that can be the attractive value for tourists so the community involvement becomes absolute. Community-based ecotourism can create employment opportunities and reducing poverty where the income comes from service fees of ecotourism guides, transportation, homestay, selling handicrafts and so on. Ecotourism brings positive impact to the environment and indigenous cultures are expected to foster identity and pride in the local population due to increased ecotourism activity.

Some key aspects of community-based ecotourism are:

1. Community forms committee or institution for the management of ecotourism in the region with the support of government or public organizations
2. Local ownership principle be applied to tourism facilities and infrastructure, ecotourism and others.
3. Homestay will be main choice accommodation facility at tourist sites.
4. Tour guides are local people.
5. Planning, management and maintenance of tourism is the responsibility of the local community, including the determination of fees for tourists.

### 3.3. Previous Research

Product ecotourism services in BTNSP is very diverse, ranging views of sand ocean and the crater of Bromo, Semeru hiking, flora and fauna, Kasodo and Karo culture. In Ranu Pane, as a base camp of Semeru hiking, economic activities include porter services, transportation (jeeps), lumping horse dance, stalls, shops and lodging services. Transportation services will deliver visitors to Bromo or Semeru in shades of off-road adventure (Nugroho, 2006).

Visitors Kasodo crowded increasingly during the ceremony in December. Local people in Ngadisari rent out houses with lighting and simple sanitation, worth up to 100-200 thousand rupiahs per night. Visitors can hire a Jeep of 12 people for 400 thousand rupiahs from Tumpang (Malang) to Ranu Pane. Other services, horses are rented for 50 thousand rupiahs to take visitors from the sea of sand to the top of Bromo.

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Entrepreneurial abilities of local people are relatively low in Ngadas village. It is showed by low scores of entrepreneurship test (Nugroho, 2008) in Ngadas than in Ngadisari (Probolinggo district) or Ranupane (Lumajang district). Villagers in Ranupane and Ngadisari have a better skill and management of ecotourism business services than Ngadas villagers (Nugroho, 2006; Nugroho and Negara, 2008).

Limitations of Ngadas village is being realized by the local government of Malang. Therefore, tourism development program through the Ngadas village to the Mount Bromo become a priority. Improving the welfare of local people will have a positive impact for the maintenance of ecological functions and environmental sustainability. The potency of Ngadas village become part of the development area of Malang Regency agropolitan that directed to Poncokusumo district.

Efforts to develop tourism services of local people in the Ngadas village have often done. They are often involved in tourism development programs from BTSNP, though it have not yet yielded tangible benefits in welfare. It seems that there are significant differences between BTSNP represent components of the government and local people to understand and operate ecotourism services. The research result of the author (Nugroho, 2008) showed that the factors of government entrepreneurship does not significantly encourage entrepreneurial of local people. Individual entrepreneurship actually born as a result driven by factors of social entrepreneurship. Therefore the advantages of local cultural values need to be formulated and accommodated in the ecotourism business services. Social entrepreneurship needs to be built to encourage the birth of ecotourism entrepreneurs.

Ranu Pane Village, sub Senduro, Lumajang district lies at an altitude of 1500 to 2000 m asl in the southern of Tengger mountainous. Ngadas village is about 55 km from the city of Lumajang. Ranu Pane village is the entrance route to the top of Semeru, therefore, the smooth asphalt roads built by the local governments to provide a convenience for visitors. Ranu Pane is also accessible from the Ngadas village but with macadam road conditions. Ranu Pane village has a population of about 3000 people or 550 family heads. Generally people work as farmers with commodity garlic, red cabbage, potatoes, carrots and other vegetables. There are people who trade and become tour guides, and rent out their homestay. Ranu Pane comes from the name of the lake in this area, covering approximately 20 hectares. Tengger culture in Ranu Pane village already thinned by the influence of immigrants from Madura or Javanese tribes. Ranu Pane village is relatively known by people. The people is also very open to newcomers. The ability of entrepreneurial of locals in Ranu Pane are relatively high, with farm work is relatively diverse and ecotourism services, with fairly good skills than Ngadas (Nugroho, 2006; Nugroho and Negara, 2008).

Efforts to develop local tourism services in the village of Ranu Pane has been running. The locals are often involved in tourism development programs from BTSNP, with the degree of intensity high enough to produce real benefits and welfare, mainly due to high tourist traffic to



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climb Semeru. Ranu Pane is a place for education and training for SAR or nature lover, which ended with trekking to Mount Semeru. Writers often see locals guide (as porter) foreign tourists or local visitors who climb Semeru. Activities demanding interpretation of learning and mastery of the philosophical to the practical by local people regarding environmental assets, cultural and other characteristics. It is then transferred to visitors so as to produce the experience and satisfaction.

#### 4. Method

The survey was conducted in Ngadas village (Sub Poncokusumo, Malang, East Java, Indonesia) and Ranu Pane (Sub Senduro, district Lumajang, East Java, Indonesia). The sample of respondents drawn randomly grouped into livelihood (i) as farming and (ii) farm and ecotourism services concurrently, each by 55 and 63 respondents. Restrictions follow Manurung (2002), ecotourism business services comprises at least six types include (i) the sights and attractions and cultural environment, (ii) the benefits landscape, (iii) accommodation and service facilities, (iv) equipment, (v) education and skills and (vi) award.

Trend analysis method of choice of business (farm or ecotourism) using qualitative choice function (binary logistic regression) (Pindyck and Rubinfeld 1991):

$$\ln P_2/P_1 = f(I_i, K_i, KWI)$$

where 2 = farm and (concurrently) ecotourism business or the business mix

1 = outside of farming or tourism services

$P_2/P_1$  = ratio of the probability of mixture of business opportunities on the farm

$I_i$  = group of individual variables (including age, education, business income),

$K_i$  = experience variable (out of town, follow the training, interaction with BTSNP)

$KWI$  = entrepreneurship test score (CRE, 2003).

$i$  = respondent (1 to n)

#### 5. Results

Ngadas Village, District Poncokusumo, Malang Regency is situated at an altitude of 1800 up to 2200 m above sea level (asl), situated west of the Tengger mountains (Mount Bromo). Ngadas village has a population of about 1600 people or 350 family heads. Ngadas is about 45 km from the city of Malang. Towards Ngadas, only paved road infrastructure up to the Gubuk

Klakah village, the rest to Ngadas be replaced by concrete macadam road use of vehicles off-road jeep. Most of the people work as farmers of cabbage, potatoes, carrots. There are few people become trader and mason, and rent out jeep or motorbike to serve visitors to the various locations in the area of BTSNP. The culture of Tengger inherent strongly it's escorted by the shaman figures, to lead rituals, mantras and offerings.

Ecotourism products that can be developed in the Ngadas vikkage, namely (i) the landscape and environment and cultural attractions, such as : Coban Pelangi waterfall, traditional ceremonies such as Kasodo, karo, unan-unan, entas-entas, pujan mubeng (ii) the benefits of landscaping, such as offroad (iii) accommodation and facilities support services, such as homestay, tour guide and (iv) equipment and supplies, such as jeeps, motorcycles.



Figure 2. Area of Bromo Tengger Semeru National Park (BTNSP)

Results of analysis showed statistical description of the variables age, education facilities, the experience, score of entrepreneurship test and income (Table 1). Variables inherent to the respondent farmers and mix farming each by 55 respondents (47 percent) and 63 respondents (53 percent), as well as efforts to deepen the discussion. The average age of all respondents is 41.95 years, while farmers and mix farming respective 42.93 and 41.10 years. Based on t test, there was no significant difference in age of the respondent farmers and business mix.

Table 1. Average of the observed variable

| Variables  | Farm    | Mix farm | Average  | Explanation |
|--|---------|----------|----------|-------------|
| Average age (years)                                      | 42.93   | 41.10    | 41.95    | $p=0.420$   |
| Graduated from high school or above (percent)            | 0       | 15.9     | 7.9      |             |
| Owned facilities, motorcycle or car (percent)            | 41.82   | 80.95    | 63.25    |             |
| Experience, ever worked outside the city or training (%) | 5.45    | 36.51    | 22.61    |             |
| Entrepreneurship test scores                             | 30.35   | 36.33    | 33.54    | $p=0.000$   |
| Income per year (rupiahs)                                | 6277927 | 14202349 | 10508763 | $p=0.022$   |

Based on the level of education, most farmer respondents (94.5 percent) complete the primary school and the rest as much as 5,45 percent did not complete it. While the respondents who tried to mix farm as much as 84.1 percent of primary school graduates, and passed on junior high school or above as much as 15.9 percent. On average, 7.9 percent of respondents completed their education above elementary school. In the Ngadas and Ranupane villages, elementary school has been available for the children. But to proceed to secondary school, the students should proceed to a nearby district with a distance of about 10 km or travel for 30 minutes with macadam road terrain.

A total of 41.82 farmer respondents have motor or car. While as many as 80.95 percent of respondents who run business mix have these transportation means. Means of transport is very important to support community life in these two villages, to transport the grass, drive to school, and serve ecotourism visitors or other purposes. Overall, 63.5 percent of respondents have a means of transportation. Means of transportation help the mobility of people to run their lives, even for trivial things such as going to the fields or looking for grass.

A total of 5.45 percent of farmers had worked outside the city or training ecotourism. This experience found more on business mix respondents that is 35.51 percent. This experience



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is a valuable capital that provides the foundation for entrepreneurship, such as communication and networking capabilities, expanding the horizon views, and control risk. Some residents also gain experience interacting with BTSNP (Bromo Tengger Semeru National Park) who have regular programs to develop ecotourism business.

Entrepreneurship test results showed an average score of all respondents of 33.54. This score on the farmers (30.35) was lower than that business mix respondents (36.33) with a level difference is significant (t test,  $p = 0.0000$ ). According to the CRE (2003), all respondents classified as high-minded entrepreneurs (in the range of 30-39). The results of this study do not differ by study Nugroho and Negara (2009), who found scores of entrepreneurship in the villages of Cemorolawang (38.21), Ranupane (36.00) and Ngadas (34.45).

The respondents had an average income of 10,509 million rupiahs per year. Income is found to be higher in business mix, ie 14.202 million rupiahs per year, while income from farming for 6.278 million rupiahs per year. Income differences are very significant ( $p = 0.0022$ ). This shows that the business mix, which includes ecotourism business providing significant value added for the locals.

Results of research in the Ngadas and Ranu Pane villages shows that it discovered two of livelihood, namely farming and business mix. Business mix includes agricultural, tourism and other business enterprises. The analysis of livelihood options implemented using logit models (binary logistic regression) with two options, namely farming and business mix. The discussion of the ecotourism business is implicitly embedded in the business mix.

The result of estimation on the factors that influence the choice of business (farm or ecotourism) is presented in Table 2. Prediction results showed that the G statistic is significant, ie, with  $p$  less than 0.01. This result shows there is a value of coefficient estimators are not equal to zero in between all the variables that were included in the estimation. Therefore, the results of estimation can be considered feasible statistically.

Income Variable is not significant (up to level  $p = 0.05$ ) on the tendency of business options. Income coefficient is 0.0304, which also show the income elasticity. This means increased revenue of 10 percent can increase the probability for choice of business mix towards farming at 0.30 percent. That number is very small because the coefficient was not significant. The same thing happened on the variables of age and education, which do not significantly affect the livelihood options. Variables facilities affect the choice of business mix significantly. This shows that the motor or car ownership is an important capital. Transportation has become a classical problem in almost all areas of the national parks (USAID Indonesia, 2004). Hence the availability of transportation will have real economic multiplier for tourism development and increased economic value and the welfare of local people.

Table 2. Logistic Regression Prediction of Business Mix Options Against Farming

| Variable (prediction of business mix to farming)             | Coefficient | Odds Ratio | P     |
|--|-------------|------------|-------|
| Constants  | -6.316      |            | 0.088 |
| Ln Income (rupiahs per year), in logaritma value             | 0.0304      | 1.03       | 0.891 |
| Age average  | -0.00669    | 0.99       | 0.749 |
| Education, elementary school graduates                       | 19          | 1.57E+08   | 0.998 |
| Facility, own motorcycle or car                              | 1.1522      | 3.17       | 0.019 |
| Experience, ever worked outside of town or followed training | 1.6928      | 5.43       | 0.028 |
| Entrepreneurship score                                       | 0.15599     | 1.17       | 0.002 |

Note : G statistic = 49.322, DF = 6, P = 0.000

As previously mentioned, these vehicles used to transport the grass, motorcycle transportation, drive to school, and to serve tourists or other purposes. Experience also produces significant influence to encourage the development of ecotourism enterprises, with a regression coefficient of 1.6928 ( $p = 0.0028$ ). Experience working outside the city or training can open horizons of the people to enter the process of entrepreneurial learning (Juma and Timmer, 2003), thus forming productive behavior in the ecotourism business services. Same tendency is also indicated by the variable scores of entrepreneurship, with a coefficient of 0156 ( $p = 0.002$ ). Of course this is highly relevant and consistent. Entrepreneurship Score is a measure of the perception that success to gave birth ecotourism entrepreneurship behavior.

The study shows that governmental entrepreneurship influence on individual entrepreneurship through the intervening variable of social entrepreneurship, individual characteristics and experiences, each with a regression coefficient of 1.125, 1.005 and 0.014. These results suggest that social entrepreneurship to be the strongest bridge for the influence of the governmental entrepreneurship towards the individual entrepreneurship. In other words, this study could prove that the development of social entrepreneurship is a necessary condition for the government to develop the individual entrepreneurship. More importantly, governmental entrepreneurship becomes the initial capital to start building the public trust.



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## 6. Implications

- a. Entrepreneurial ability of the local people of Ngadas Village are relatively low compared with Ranu Pane people. Entrepreneurship test result showed that score on farmers was lower than people that trying to business mix (farmer plus ecotourism). Most of the people have been involved in tourism development programs of Bromo Tengger Semeru National Park (BTSNP), but the experience has not been produced real benefits to welfare. Therefore the locals need workshops by the relevant stakeholders such as Department of Agriculture, Department of Tourism and Department of Small Medium Enterprises to improve their skills and knowledge about agriculture, entrepreneurship and ecotourism. This workshops are expected to increase their income.
- b. In line with the local government program for the tourism development through Ngadas village, it would require upgrading and improvement of road transport and electricity. Tourism promotion to the BTSNP through Ngadas village also needs to be encouraged by local government.

## 7. Conclusion

- a. Respondents consisted of farmers and who tried to business mix each by 55 (47 percent) and 63 respondents (53 percent), with an average age of all respondents is 41.95 years.
- b. Entrepreneurship test results showed an average score of all respondents of 33.54. This score on the farmers (30.35) was lower than that trying to mix (36.33) with a level difference is significant (t test,  $p = 0.0000$ ).
- c. Variable of facilities (bike or car ownership), experience (work outside the city or training) and a score of entrepreneurship provide a significant positive influence on the tendency of a mixture of business or ecotourism options, each with a coefficient of 1.1522, 1.6928 and 0.15599. These three variables are a source of inspiration for people into the entrepreneurial learning process, thus forming productive behavior in the ecotourism business services.

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## Appendices



Agricultural land in Ngadas Village



Savanna Valley in TN BTS



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Interview with respondent

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## THE CHANGING NATURE OF THE INFORMAL SECTOR IN SOUTH AFRICA: EVIDENCE FROM A STUDY OF SOUTH AFRICAN AND SOMALI OWNED SPAZA SHOPS

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### Abstract:

**Objectives:** The study intended to define the Spaza informal industry in South Africa. Participants in this industry were identified and also challenges faced by informal retail businesses in townships and in informal settlements in South Africa. Further the study used data collected from local (South African) informal retail businesses owners and foreign (Somalis) retail business owners to identify their differences and the changing nature of the informal sector in South Africa. Lastly the study suggested mechanisms for sustaining the informal Spaza industry in South Africa.

**Theoretical Background/Previous Practice:** A further consequence of apartheid is the location of previously disadvantaged communities, in particularly African Black communities were purposefully situated outside and far removed from towns and city centres. This apartheid “spatial development plan” gave rise to issues surrounding job creation and the eradication of poverty. To exacerbate matters, under apartheid’s spatial planning, heavy emphasis was given to top-down regional policy interventions designed to promote industrial decentralization in the country’s peripheral ‘Homelands’ or ‘Bantustan regions’ and townships. As a result of the apartheid policy measures, South Africa’s economy can be described as a dualistic economic system.

**Approach/Methods:** The study investigated the changing nature and form of Spaza shops through the use of a mixed method approach. The observation method gathered data through pictures of real Spaza shops. These were analysed to give a full description of what a Spaza shop is. A survey of 352 Spaza shop owners added to the description of the Spaza shops as well as the identification of the problems faced by these small businesses. Further the survey also gathered data on the differences between South African and Somali shop owners as well as the data on the changing nature of industry. Interviews were used to collect supplementary data for purposes of clarity and verifying identified themes.



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**Results/Insights:** The South Africa Spaza shop industry is changing. Competition is increasing from the entry of foreigners who are revolutionising the way Spaza shops used to operate. Competitive strategies of collective purchasing as well as the development of “walk-in” Spaza shop are changing the industry. New forms of premises in the form of decommissioned containers have emerged. A parallel rental system for containers and business premises in people’s back yard is on the growth. There is however lack of business skills required to develop the Spaza shops into formal businesses.

**Implications:** The study proposes a formal introduction into schools and tertiary institutions of a curriculum that will teach the management of informal businesses such as Spaza shops. Provincial and national policies that aim at advancing the Spaza shops should be developed. More research is required in order to strengthen the knowledge base related to the operations and activities of Spaza shops.

**Keywords:** *Informal trading sector, Small enterprises, Sustainability, Somali, South Africa.*

## 1. Introduction



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South Africa like most developing economies has a booming informal sector. This sector has been changing over time as new developments and demands affect the South African economy. In recent years, changes in the form and nature of the informal economy have been noticeable. With the pressures on job creation and the inward migration of people within and from beyond the borders of South Africa, the informal sector has become bigger and is changing. Some of the changes seem to indicate that the local participants in some informal sector industries, such as in the informal retail industry, might be forced to close their businesses as a result of foreign participants being more competitive. As pointed out by Morris et al (1997) the role of the informal sector in South Africa in reducing unemployment and poverty cannot be underscored. Further, participants in the informal sector have also changed over time as new population groups move into South Africa. This paper utilised evidence obtained from a study of Somalis and South African Spaza shop owners so as to draw lessons for the informal sector's sustainability in South Africa.

## 2. The Informal Sector in South Africa

Informal trading is also known as the informal economy or the hidden economy. It relates to unregistered economic activities which contribute to the officially calculated or observed Gross Domestic Product (GDP). This entails all economic activities which normally would be taxable if reported to the tax authorities of a country, (Schneider, 2002).

The informal trading sector in South Africa encompasses a wide range of vending, productive service and trade activities in rural and urban areas, the inner city, peri-urban and suburban communities as well as the informal settlements (Peberdy, 2000). The informal sector, while common and conspicuous, is the least understood sector of the economy in South Africa (Hadebe, 2010). There is very limited information available from empirical research or from statutory bodies on the nature, form and related informal activities. A number of initiatives towards the recognition and advancement of this sector are yet to yield tangible results. Jurgens and Donaldson (2012) scanned literature on townships and found over 400 articles that mostly focused on housing, health and related issues. Very few articles discuss business related issues associated with townships and the informal sector in South Africa.

In South Africa, the informal sector flourishes within the informal settlements and in townships. Nearly every corner of the informal settlement area and in townships, an informal business operates. In one street in the Khayelisha area, which was considered in this study, 42 informal businesses were identified within a distance of 2km. This is a legacy of the apartheid laws that systematically excluded Black people from participating in the formal economy and thereby creating an inextricable link between informality and race in South Africa, (UNDP,2007)

Schneider (2002) estimated that the South African informal sector in 2000 was valued at R348, 3 billion contributing 28.4% of the GDP of the country. While the number of those



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who participate in the informal sector is still unknown, [De Vletter \(1996\)](#) estimated that 16% of South Africa's economically active population was engaged in the informal sector. The Department of Trade and Industry (2007) reported that about 1.69 million people between the ages of 15 and 65 were involved in informal business. These statistics do not differentiate between locals and foreigners. Rolfe, Woodward, Ligthelm and Guimraes (2010) indicate that the growth of the informal sector was 8 times the growth of the formal sector in South Africa. Despite such growth, Muller and Posel (2004) report that, while, there is an extensive body of empirical work examining the state of the South African formal sector, empirical research that comprehensively examines the size and nature of the informal sector in South Africa has been limited, due to deficiencies in data available to researchers. This has resulted in a blanket of mystery engulfing the informal sector. This view is supported by Jurgens and Donaldson (2012) who argue that there is very limited research in the townships and informal settlements to address township-specific issues. Thus the South African government, academics and other stakeholders are all interested in gaining an understanding the nature of this multi-billion rand sector. The reason for the interest in this sector is because of the job creation potential that exist within the sector and its ability to provide a livelihood strategy for poor people in developing economies, (Morris et al, 1997 and Mulugeta, 2008).

The informal settlement in South Africa grew during the economic booms of the 1970s. In the 1980s, the apartheid government introduced land rights for Black people and rescinded the pass law leading to an influx of people mainly from rural to urban centres, (Barry, 1999; Barry and Ruther, 2005; Posel, 2003).

The motivation behind most businesses in the informal sector is generally assumed to be about personal survival, as opposed to return on investment, (Rauch, 1991). Although this sector tends to have rich and poor components, most informal businesses provide a subsistence existence to their respective owners. In general, returns tend to be low and intermittent, stability and security are minimal, working hours are long and the working conditions are poor. Furthermore, informal businesses are associated with very low innovative capabilities and competencies in saturated markets, (Marius, 1987). Frese (2004) states that businesses in the informal sector are often assumed to demonstrate low levels of productivity, especially given their labour intensity, limited skill pool, and small scale operations.

Informal sector activity is pervasive in Black townships and in informal settlements as a result of the high levels of unemployment in South Africa. South Africa has a high unemployment rate which signifies the level of poverty in poor communities. This is especially prevalent in townships and informal settlements where unemployment in some areas is estimated to be in excess of 50%, (Nel, 2005). This scenario has been aggravated by the influx of immigrants from the rural areas through rural-urban migration and of foreigners who come in as political and economic refugees. Despite the challenges associated with poverty and unemployment affecting the townships and the informal settlements, there is a



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reasonable amount of demand for some basic commodities to sustain the livelihood of people living in these areas.

The demand for the supply of basic goods and services in the poor communities has resulted in informal businesses such as Spaza shops flourishing throughout these areas. In one study, Aymes (1989) found that an informal business was operating in every fifth township house. De Smidt (1988) identified grocery shops (Spaza shops), butcheries, hairdressers, seamstresses and shebeens (informal liquor establishments) as the most prevalent types of business activities in informal settlements.

The environment in which they operate are generally associated with low quality of life and social problems such over population, poor municipal services, high crime rates bedevil the areas. In addition, road networks, educational facilities, sanitation facilities and accommodation are far below acceptable levels.

The situation has been compounded by high net immigration levels by both local and foreign nationals (Mararaj, 2009). Internal migration has been enhanced by a number of factors. Amongst these is the lifting of formal restrictions on African urbanization within South Africa in the late 1980s, (Posel, 2003). As noted by Richards and Mutsonziwa (2007) and Gibb and Nel, (2007) South African cities continue to attract thousands of new residents every year in search of work and better life. Notably, the pattern has shifted from the past where men used to migrate to include families and women migrating to cities, (Davies and Head, 1995; Peberdy, 1997; Posel, 2003).

There have been some interesting developments within the informal sector activities in South Africa. In recent years, there has seen a remarkable growth in the number of non-South Africans participating in the informal sector of the economy. A number of foreign nationalities such as Pakistanis, Chinese, Zimbabwean and Somalis are now evidently participating in the informal sector of the South African economy. These changes can be attributed to the influx of both legal and illegal immigrants from the region and even beyond into South Africa, (Muharaj, 2009; CRAI, 2009). As foreigners participate in the informal economy, noticeable changes and differences have been observed. This study sought to add to the growing body of knowledge on the informal sector in South Africa by examining the differences between the practices associated with South African and Somali Spaza shop owners in the Cape Metropolitan Area (CMA).

The Cape Metropolitan Area (CMA) is an area that is home to more than 3, 7 million people comprising of 1,060,964 households (City of Cape Town, 2011). According to the 2008/2009 Water Service Department Plan of the City of Cape Town, approximately 30% of households (almost a million people) live in inadequate housing and depressed physical environment. Anywhere between 270 000 and 400 000 households live in informal settlements. The City estimates that the number of people living in informal settlements grows at an average of 48 000 people/7700 households per year or 130 people day. The Informal Settlement Sanitation



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Master Plan estimates that there are approximately 230 informal settlements in the CMA. Population density figures in the informal settlement averages 140 dwellings per hectare (Golberg et al, 2009: 48).

In the CMA, most local immigrants are from the Eastern and Northern Cape provinces, (Gibb and Nel, 2007). With the developments in the transport system and the end of the apartheid era, local immigrants from other provinces of South Africa have moved into the CMA and into townships and informal settlements. Those in the urban areas usually keep strong ties with those in rural areas of South Africa. In many instances, due to the harsh economic environment in rural South Africa, those in rural areas move to the cities and join their family and friends in the townships and in informal settlements in search for better opportunities. In fact population figures indicate that the population of those in townships and informal settlements are on an above average increase compared to those in the other areas within the same urban areas, (Gibb and Nel, 2007; Statistics SA, 2010).

The CMA has also attracted immigrants from beyond the borders of South Africa. Mostly they come from neighbouring countries but of late they come from as far afield as the East, West and the northern parts of Africa or even beyond the continent, (Maharaj, 2009). There are no definitive estimates of the number of foreigners in the CMA. This is because of the existence of legal and illegal immigrants. Only the legal foreigners, refugees and those with various permits are documented. Foreigners who immigrate to South Africa bring with them skills from their home countries. While a number are able to secure employment, a significant number fail to do so and end up in the informal sector of the economy in South Africa. They use their skills in formal circular employment or as a means of survival through informal trading. To date no study has been able to quantify the number of foreigners in the informal sector of South Africa.

This study focused on one group of immigrants from Somalia. Somalia is an Eastern African country that has faced political instability that perpetuated outward migration of the Somali people to other countries as political and economic refugees. The Somalis have a rich history of trading practices that date back to ancient times (Abdullah, 2001; Lewis, 2008). In the past, the Somali government pursued a communist philosophy. This philosophy enhanced a culture of working together as communities were expected to share what they produced. This historical legacy has permeated into the modern world as evidenced by the country wide trading activities by individual Somalis. With the collapse of the Somali government, the economic well-being of the Somali people has been driven by individuals who took initiatives to provide goods and services to other people within their country. As Somali people migrate to other countries they usually maintain their home country religion and culture. This is apparent in their spirit of working together. Generally most of the Somali people fall under the Muslim faith. This study confirms that the philosophy of brotherhood exists across all Somali people in the CMA. They generally help each other to survive the new environment they find themselves in. As observed by Maharaj and Moodley (2000), the



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brotherhood tendency exhibited by the Somali people in the CMA is typical of the munificence attitude generally extended to one another by foreigners.

### **3. The Spaza Shop Industry in South Africa.**

One of the most popular forms of informal businesses that are operated in townships and informal settlements are Spaza shops. A Spaza shop can be seen in virtually all townships and informal settlements in South Africa, (Hadebe, 2010 and Ntoula, 1989). Based on observations of more than 352 Spaza shops, this study conceptualizes a Spaza shop as a form of informal business that specialises in selling a limited variety and range of grocery products mostly to residents in townships and informal settlements in South Africa. Spaza shops are generally not registered and operate in backyards or from the front part of a residential property. Most Spaza shops are housed in corrugated iron sheet structures, decommissioned containers or in some brick structure that is annexed to the main residential property. Where decommissioned containers are used, the window opening is usually set on the longer side of the container but in some circumstances it can be seen from the door side of the container with a counter separating the customer and the shop attendant in-between.

Depending on their size, Spaza shops are usually manned by between 1 and 3 people. Goods on offer are usually kept inside the Spaza shop except for some potentially hazardous products such as paraffin that are kept outside the shop. Customers are generally served through a small window like opening with the shop attendant being stationed inside the Spaza shop. Those who buy from Spaza shops are able to see products they may wish to purchase through the opening that is used to serve customers. In some instances, Spaza shops have a wire gauze screen that allows customers to see products inside the shop. While generally one could say customers do not enter Spaza shops, the Somalis have revolutionized this by introducing walk-in Spaza shops. These can be defined as “modern” Spaza shops that have self-service and walk-in facilities. They are well secured with a wider range and variety of products. Walk-in-self-service Spaza shops are now emerging. Products are well arranged and the Spaza shop looks like a miniature supermarket. However, they remain very small as compared to formal grocery shops.

In the past, the general trends in the informal settlements and township were to have local owning Spaza shops however in recent years other nationalities such as the Somalis, Pakistani and Chinese now own and operate Spaza shops. This study observed a few Pakistani and Chinese owned shops in the townships and informal settlements in the Cape Metropolitan Area.

In general, in South Africa, Spaza shops are unregulated and are not formally recognized as the business institution that can rank for financial services support. The Spaza shop market typically represents a value chain where low income consumers procure basic grocery commodities through Spaza shops retailers that are supported by wholesalers, distributors and other suppliers of goods and services. Within this context the Spaza shop market is an



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integral part of the wholesaler's target market. In addition, Spaza shops play a significant role in the livelihood of many consumers in the townships and informal settlements and for visitors visiting the townships or informal settlements.

#### 4. The Study

In the greater Cape Metropolitan Area (CMA), a significant amount of informal trading occurs in various economic sectors. Evidently locals and foreigners participate in this sector of the economy. One particular area where the informal trading occurs significantly is in the Spaza shops market. The highest number of concentration of Spaza shops is in the Khayelisha area of the CMA. This area is also surrounded by a number of informal settlements.

This study utilized both qualitative and quantitative methods to collect data. Primary data was collected through observations, a survey and focus group sessions. Other stakeholders such as City authorities and the police were interviewed using unstructured interviews. The focus of the unstructured interviews was to provide insight into the role of regulatory authorities in this industry.

An exploratory descriptive study was adopted to inform the research findings. Using interviews based on a structured questionnaire with both open and closed questions, the study investigated challenges, financial management practices, entrepreneurial orientation, networking and growth potential amongst respondents from two groups of Spaza shop owners, namely the local South Africans and the Somali Spaza owners.

A total of 352 respondents from both groups participated in the study. Basic descriptive statistical analysis was used to analyse the data from the sample that responded. The study observed more than 400 Spaza shops and was allowed to take 86 photographs by owners around the Khayelisha area. This technique was used to facilitate the conceptualization of what a Spaza shop is and how it is changing. The study also used a focus group session with both locals and foreign Spaza shop owners to enrich the findings from the survey and observations. Major themes were identified and linked to the findings of the observations and the survey. The mixed method approach facilitated a deeper understanding of the nature of the Spaza shop industry and how it can be sustained in South Africa. The use of the mixed method allowed the research to use crystallisation as a method of validating the data collected.

The study also utilized the services of a student from Somalia to assist with the interviewing process, particularly putting the respondents at ease and translating some questions in circumstances where language was a barrier. The Somali people speak Somali and Arabic languages and a few of them speak English very well.



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The research targeted small, informal convenience stores located in the disadvantaged communities in people's houses or backyards. All Spaza shops selected for this research were those that fell outside the formal registered, taxed, licensed, statistically documented and appropriately zoned business districts. The local and foreign owned Spaza shop owners included in the research excluded those that own shebeens and retail outlets in shopping malls.

## 5. Sample Descriptions

The study utilized a convenient sample of 352 Spaza shops of which 214 were owned by locals and 138 by foreign Somali people. Out of the 352, a total of 34 informal business owners of which 20 were South African and 14 were Somalis participated in the focus group sessions. The demographic makeup of our sample had a mean average age of 46 for locals and 35 for foreign owners. The respondents' businesses had been in existence for 4 and 2½ years for locals and foreigners respectively. On an average the South African participants had been in the informal business for 22 years while the foreigners had been trading informally for 18 years.

The following table, Table 1, highlights the simple mean of the business owners, number of employees employed by the business and the age of the business.

*Table 1: Age of Business Owner, Number of Employees and Age of Business*

| Ownership           | Age of business owner | No. of employees | Age of Business   |
|---------------------|-----------------------|------------------|-------------------|
|                     | Mean                  | Mean             | Mean              |
| Local Spaza Owner   | 46                    | 2                | 4 years           |
| Foreign Spaza Owner | 35                    | 3                | 2.5 years         |
| <b>Total</b>        | <b>40.5</b>           | <b>2.5</b>       | <b>3.25 Years</b> |

Further, the study investigated the gender attributes of the respondents of which 61% were male and 39% were female in total. Specifically there were 58% local males' owners and 42% female local owners. On the foreign owners, 59% of the respondents were male while 41% were female. This generally indicates a dominance of men in the Spaza shops informal sector businesses. In terms of education, the following table, Table 2, summaries the level of education of respondents:



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Table 2, Level of Education of Respondents

| Qualification | Local Spaza Owners | Percentage | Foreign Owners | Spaza | Percentage |
|---------------|--------------------|------------|----------------|-------|------------|
| Below Matric  | 187                | 87%        | 94             |       | 68%        |
| Matric        | 21                 | 10%        | 40             |       | 29%        |
| Diploma       | 6                  | 3%         | 4              |       | 3%         |
| Total         | 214                | 100%       | 138            |       | 100%       |

The above table indicates that the majority of the respondents have qualifications below matric. This is supported by previous studies indicating that the majority of the people residing in Khayelisha have below matric qualifications (e.g. Nodal Economic Development Profile, 2005). As a result of this, many people cannot easily find employment. The problem is compounded by the fact that access to tertiary education is inhibited by high fees hence most people from these communities do not attend tertiary institutions. Matric qualifications are usually not sufficient for people to acquire entrepreneurial and business skills. In the study sample, the average level of education of the respondents was below matric and the relationship between education and success was not statistically significant. From both groups of respondents, only 22 local respondents and 2 foreign respondents (representing 6% of the total sample) had attended at least a one week training course/workshop with no formal examination in some business management course in their life time. A total of 8 locals and 1 foreigner had an examination based certificate in business management. None had higher qualifications such as diplomas or degrees in business management. Entrepreneurial skills and business skills are unique skills that need to be imparted through training intervention. Most training interventions have developed programmes aimed at capacitating business owner into setting registered businesses. The majority of the training interventions available in South Africa are provided in either English or Afrikaans and exclude other nine official languages spoken in South Africa. None are designed to provide training to this multi-billion dollar industry. Within the South African economy, there has not been much effort in recognising the informal sector and helping it grow through providing training interventions.

## 6. Findings, analysis and interpretations

### 6.1. The Generic Challenges Affecting the Spaza Industry

#### 6.1.1. Major Problems experienced by Spaza Shop Owners

This report first discusses the generic problems affecting business from both groups of Spaza shop owners. These challenges influence the business operatives and hence affect the way



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informal business owners operate their businesses. Based on interviews and the focus group session responses and the interviews with City of Cape Town officials and the police services the following summary of major problems affecting the Spaza shop owners is provided in Table 3 below:

*Table 3: Major Challenges Affecting Spaza Shop Owners*

| Factor                       | Local Spaza Owner | Foreign Spaza Owner |
|------------------------------|-------------------|---------------------|
| Limited Product Range        | High              | Low                 |
| Limited Storage Space        | Medium            | Low                 |
| Stock Losses                 | Low               | Low                 |
| Access to Finance            | High              | Low                 |
| High Cost of Infrastructure  | High              | Low                 |
| Access to business support   | High              | High                |
| Transport                    | High              | Low                 |
| Crime                        | High              | High                |
| Pest control                 | Medium            | Medium              |
| Personnel Safety             | Low               | Medium              |
| Waste management             | High              | High                |
| Business Management Training | High              | High                |

In light of the challenges presented in table 3 above, local informal business persons identified limited range, low demand, access to finance, high infrastructural cost, access to business finance, transport and waste management as key areas of concern that they would like to resolve in order to grow their products and services. On the contrary, the majority of foreign Spaza shop owners, identified crime, safety and waste management as major challenges.



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### **6.1.2. Access to Municipality and Policing Services**

The focus group sessions revealed that access to emergency services such as ambulance services; fire brigade services and police services were generally satisfactory to both local and foreign owned Spaza shops. Despite the area being crime ridden, respondents agreed that the visible policing and community policing forums had stabilised crime. The major location factor that affected their trading activities revolved around waste management. The participant in both cases indicated that this was not satisfactory at all. The general impact of this is that uncollected waste impacted on the environment where goods and services were offered. Uncollected waste resulted in health hazards and it also affected air pollution as it caused stench and other odours.

## **6.2. The Spaza Industry in the Cape Metropolitan Area**

This section discusses the characteristics of the Spaza industry based on the responses and observations made in the Khayelisha area. The data from photographic analysis as well as the data from descriptive analysis of responses from the survey are considered below.

### **6.2.1. Shop Sizes and Shop Layout and Location**

There were significant differences in the layout and sizes between local and foreign owned Spaza shops. During the focus group session held, the local participants indicated that their shops were primarily between 30 to 40 square meters in size. The majority of the local owned Spaza shops (60%) were housed in structures made mainly from corrugated iron and zinc sheets attached to a residential property. Their shops contained at least 1 refrigerator, a counter mounted by a security screen with a serving hatch. Further, their shops were fitted with shelving that stocked items such as bread, cigarettes and some grocery items. In the majority of cases (n=102), the shop also contained a large drum of paraffin that is located in the front end of the shop.

Foreign owned Spaza shops were generally larger in size. Their layout differed significantly as in some cases the shops were similar to a miniature supermarket. The shop also had at least 1 large refrigerator similar to those available in grocery shops.

Foreigners generally are not able to buy land or to own some space in the informal settlements. The locals have primarily divided land available in informal settlements amongst themselves using mechanisms (such as identity documents or some government waiting list document) generally accessible to locals. This means that in order to trade, they have to rent some space from local residents. The space is either the unoccupied space where a structure is built or a decommissioned container is set up.

There is a seemingly growing tendency, amongst Spaza shop owners to utilise decommissioned sea containers as premises for their businesses. This is more evident



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amongst the foreigners (n=73) as compared to the locals (n=46). The container initiative is being used to enhance the shop layout and to provide security to stocks.

All the foreign respondents rented the premises they operated from as compared to the local who either used their or a relative's place of residence to set up their Spaza shops. An increasing feature relates to the use of containers especially by foreigners. A Spaza shop or a township resident acquires a decommissioned container and then set it up for renting to a Spaza owner who then operated the Spaza from the container. This observation points to an interesting aspect on the changing nature of Spaza shops and the entrepreneurial orientation of locals as compared to the foreign immigrants. The observation suggests that the locals are risk averse as indicated by a desire to obtain a fixed rental return from renting out a decommissioned sea container to a Spaza operator, while the foreigners are more enterprising as they are keen on venturing into businesses where locals would have given up.

Further, the demand for containers and the rental of premises for foreigners to use for business has resulted in the development of a parallel container and rental subsector from the informal industry in South Africa. This is some innovation that needs to be explored and enhanced.

The major challenge that stems from the use of containers and the payments for rent for business space seems to suggest that the cost of doing business might eventually increase and may subsequently affect the cost of products in the Spaza shops. The locals that rent the premises, including the containers, will soon realise the increase in demand for space. This might be countered by an increase in the costs of acquiring land or containers for Spaza shop use.

### **6.2.2. Products and Services Rendered**

There were similarities and differences in the product ranges and varieties that were offered by both the local and foreign Spaza shops. Both types of owners offered the generic groceries that are demanded for basic survival purposes. However the varieties of the goods offered is very limited and customers tend to buy what is available. These products include bread, soap, electricity and prepaid airtime vouchers. Notably these low priced products are generally suitable for, and are highly demanded by individuals who live in the townships and informal settlements. Interestingly, there were very few products priced beyond the R50 mark.

The range of goods offered in the foreign shops was wider, owing to their size and capacity. The general trend in the foreign owned shops was to offer more products that normally would not be available in traditional Spaza shops such as herbal traditional healing products, generic medication, some hardware, gas and cosmetic products.

Respondents during the focus group sessions and our observations confirmed that a number of local Spaza shops had ventured into the fast foods, take away market where they sold meat



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products prepared on a braai (barbeque) stands or on a fire outside the shop. Some even sold home cooked African dishes. This illustrates the local trader's ability to change in line with the changing nature of customer requirements, especially the desire to eat food prepared always from home. This suggests the intensity of competition could have moved the local Spaza owners to change their product offerings to meet the changes in the task environment.

While the townships and informal settlements are home to a significant proportion of those earning lower incomes, the environmental changes in South Africa have allowed for better education and access to other products and services that were not readily available before the end of the apartheid era in 1994. In addition there has been some growth in the disposable income of those in the previously disadvantaged environments. This suggests that there is some level of sophistication in the products that are now being demanded within the townships and informal settlements. Spaza shops are therefore responding by providing some additional products into the market. The arrival of new players in the market also increases competition and therefore changes the level of sophistication of market offerings. As competitor tries to beat the market, basic market literature suggest that the competitors will change their marketing mix to offer better prices, products and to do so the Spaza shop industry will need to improve their promotions as well as the place they offer their products. The implications are clear that the Spaza industry is heading for fierce competition.

### **6.2.3. Motivation for setting up Spaza Shops**

Motivation between local and foreign Spaza shop owners was significantly different. Local Spaza shop owners were motivated by survival and would rather work for a company if accorded the opportunity. With the Somali Spaza shop owners, the Spaza shop was for survival also but their motivation went beyond this. The Spaza shop represented a way of life. With the challenges associated with obtaining a job, language barrier in some instances and resentments by local communities, most Somalis would rather work for themselves.

The majority of the Somalis people within the CMA are refugees. The South African laws allow refugees to undertake gainful employment as long as they are qualified to do so. However in the majority of the cases, the local employers are not willing to hire foreigners officially as this affected their employment equity status, a form of affirmative action that the South African government use to address the previous anomalies arising from the apartheid era. Faced with such challenges, Somalis people put maximum attention and energy towards the running and managing of their Spaza shops as they provided the only way to survive in most cases. The foreign Spaza owners were more motivated as noted from their innovativeness and business growth initiatives.



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#### 6.2.4. Access to Finance

Tambunan (2005), Thomson and Gray (1999) and van Dijk (1992) points out that most micro-businesses are under capitalised. They further assert that owners utilise their personal savings as the main source for setting up the business and expanding it. This is because of challenges associated with accessing start up and expansion capital. Micro-businesses also face challenges with regards to the payment of workers as they cannot pay the same rates as larger businesses. This was apparent within both groups of owners. They face similar challenges with regards to access to capital. The manner in which both groups managed this phenomenon was however different. Local owners are in a better position to obtain additional funding from “clubs” and individuals who ran money lending schemes popularly known as omashonisa. Omashonisa are typical loan shark systems. The clubs operated in a unique way where members would contribute a stipulated amount of money regularly and then those who wanted money would borrow from the pooled resources at a controlled interest rate. On the other hand omashonisa lending schemes charged very high interest rates and had thugs supporting them in cases of defaulting. The interest rates were as high as 20% per month. Local Spaza shops could access loans through banks and micro lending schemes in cases where the owner had some form of steady income. These loans were available for periods up to 60 months. In addition besides traditional banks micro lending institutions are readily available to South African. In an isolated case, one woman used money from social grant to fund her business.

The scenario was totally different for the Somali Spaza owners, who faced even harsher environments. There are no banks in South Africa that provide foreigners with personal loans. The micro loan market is highly regulated by the New Credit Act which technically excludes foreigners from accessing any micro loans. However the existence of the Somalis brotherhood and the principles of the Muslim religion that prohibits charging interest to a fellow Muslim provide the much needed financial support to the owners of Spaza shops particularly when they are setting up. However the support is not always readily available hence there is a limit to the financial resources that the foreign Spaza owners could get through their associations and brotherhood.

#### 6.2.5. Financial Management

A significant difference in the management of finances was observed between the two groups. Local Spaza shop owners lacked basic financial management practices that would sustain and grow their business. In particular, record keeping was observed as a major difference. Local businesses owners did not maintain a cash book and also did not keep a record of stock purchases and payments made by the business. Local Spaza owners mainly used proceeds from their Spaza shops to sustain their daily requirements for survival. The foreign shop owners on the contrary were interested in expanding their businesses. Financial management



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was further complicated in both cases by the support both sets of owners faced with extended families. In the case of South Africans, the majority of those we interviewed sent money to their family members in the rural areas of South Africa such as in the Eastern Cape. The Somali also remitted money to their home country to take care of family that remained there who were facing conditions of extreme poverty. In both cases the remittance both local and internationally affected the management of the businesses. It was however more difficult for the local Spaza shop owners as they would have to contend with high interest rates in circumstances where they would have borrowed money from omashonisa (loan sharks) or from their “clubs”.

Further, under financial management, we investigated what we termed operational financial sophistication. Very little research is conducted within the informal sector making it difficult to measure the extent of operational sophistication and to benchmark business practices. The level of operational sophistication was used as a measure by previous studies within the informal sector to obtain a benchmark from overall way in which the business was managed, (Morris, 1996). Operational financial sophistication consisted of marketing, pricing, supply chain and compliance. This measure is of particular importance as it provides a means of assessing the shortcomings of the business from a management perspective, especially when comparing management styles of foreign and local Spaza shops owners in this study.

#### **6.2.6. Entrepreneurial Orientation**

Lumpkin and Dess (1996) noted that entrepreneurial orientation represents specific key entrepreneurial processes in terms of how new ventures are created. These include four aspects noted by Miller (1983) namely innovativeness, risk taking, proactiveness and competitive aggressiveness. Many researchers have identified and tested only three of the dimensions of entrepreneurial orientation namely innovativeness, risk taking and proactiveness.

This research followed the trend and asked participants on the subjects of risk taking, innovation and being proactive. Generally, the level of innovativeness that was observed in Spaza shop under study indicated that there was a higher form of innovativeness amongst the foreign owned enterprises as compared to the local owned enterprises. The level of innovativeness could be noted in the use of containers as there were more Somalis with containerized Spaza shops (n=71) and brick structured Spaza shops (n=67) as compared to 22 containerised Spaza shops for locals, 142 corrugated iron sheet constructed shops and 40 brick structured enterprises.

Given the challenges of xenophobia faced by foreigners in townships and informal settlements (see Muharaj, 2009), the Somalis took more risks than the locals. Crime statistics related to looting of Spaza shops, shooting and some other form of harassments were reported to be higher towards foreigners as compared to locals. In some instances some Somalis unfortunately lost their lives. The result of these challenges was not to stop trading but to



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build security measures in order to protect their investments. Innovativeness can also be observed from the Somalis attempt in learning the local vernacular language. It was interesting to observe the effort that the Somalis traders put in try to communicate with customers using the Xhosa language widely spoken in Cape Town's townships.

### 6.2.7. Collaborative Networks

This study utilised this measure to test the prevailing and distinct cultures of local and foreign Spaza shop owners. The principal theme in collaborative networks measured the Spaza Shop owners' affiliation towards individualised culture or collectivist culture within the immediate business environment. The data for this assessment was obtained through in depth interviews. The study established that the local Spaza owners did not collaborate generally with one another. While some of them have affiliations from their social activities such as in churches, burial associations as well as from their rural homes, the locals preferred to work on their own. On the other hand the Somali traders operated more on collaborated networks. Further, the established that they operated buying clubs, pooled cars when purchasing stocks and generally work together in their businesses. The collective ideology amongst the Somali traders was also noted in the way they linked together to provide security for their shops. Despite facing security challenges from people with xenophobic tendencies, their network provided much needed support in ensuring that their shops were secure. In all the informal businesses that were observed, the security of business resources including personnel was provided by the business owners (for locals) and by the business owners and the Somali network for the foreigners under study.

## 7. Lessons Learnt and Implications of the Study

There are a number of lessons and implications that can be drawn from this study. Firstly, this study highlighted the changing nature of the Spaza industry in South Africa. This informal industry has potential for reducing poverty and developing entrepreneurial skills amongst the people that live in poverty stricken areas such as townships and informal settlements in South Africa. There is need therefore to develop specify interventions that are tailor made for this sector from both policy and operational perspectives. The South African government cannot afford to ignore the existence of institutions such as Spaza shops in most of the country's townships and informal settlements. Instead of focusing on formalizing them, interventions on professionalizing them should be put into place. The formalization process would follow naturally.

The existence of Spaza shops in townships should not be ignored by various stakeholders such as government, educational institutions and the law enforcement institutions in South Africa. The mere fact that 60% of town dwellers in South Africa stay in townships and in informal settlements points to the important contribution that Spaza shops are doing in promoting the livelihood of people that stay in these areas. Goods are made easily available as Spaza shops bring some convenience to residents. This implies some level of development.



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Secondly the Spaza shops bring some employment and provide household income to those who run them. To date no study has been conducted to measure the ripple effects of Spaza shops to the families of owners as well as to other community members. Such studies are important as they provide persuasive arguments to policy makers and educators to the role played by Spaza shops and the informal economy at large.

Thirdly if Spaza shops are significant institutions in the South African economic platform, there is need for clear policy guidelines to promote. Both local and national governments should develop specific guidelines that take into considerations the needs, the nature, location and challenges faced by Spaza owners. Infrastructural concerns should be addressed so as to facilitate clear developmental agendas in communities that have Spaza shops. The existence of a parallel container industry should be encouraged as a mechanism for standardizing and managing security concerns for Spaza shops.

Finally the entire education system in South Africa, from primary to tertiary institutions except for a few papers negates the Spaza shop phenomenon. Very few research articles on their operations can be seen in journals. The basic education and tertiary institutions do not teach these as forms of businesses yet estimate indicate that there are more than 100000 Spaza shops in the entire country. The mere fact that they generate more than R7 billion in turnover per annum indicates an important institution that requires proper backup from educational systems. Curriculum in schools and in tertiary institutions should include some form of teaching that helps learners understand this phenomenon. Such an approach will help sustain the development of the informal sector. This study provides a foundation for further studies on the informal sector business activities. Insight has also been brought to fore on the importance of culture, experience and religion in business practices.

## 8. Conclusions

This study has demonstrated that the business practices between local and foreign Spaza owners are significantly different and are primarily caused by cultural differences and experiences of individuals involved. Foreign Spaza shop owners are more collectivist in nature while local Spaza shop owners are more individualistic. The distinct differences between the two groups of business owners has resulted in differences in buying methods, where foreign owners do collective buying and thereby qualify for bulk discounts which impacts directly on their pricing strategies and competitiveness. The layout patterns of products in the Spaza shops also significantly differentiate the two groups as customers buying patterns and customer preferences often favour the bigger and well laid shops. The majority of local Spaza shop owners do not implement basic financial management practices in their business which means that there are no financial records of daily transactions to



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capture vital financial information that will allow the owner to see growth pattern in the business. This information is not only important for monitoring the financial health of the business, but also for accessing finance.

Through this study, we have been able to add to the literature on the study of business practices by immigrants into urban areas. Further the study has shown that the South African informal sector is still in its infancy. In order to sustain its potential, there is need to provide training intervention and other forms of support that empowers the participants in this market. Access to finance and support to other non-South African participants needs to be investigated and clear policy frameworks developed. Currently the non-availability of data about foreign participants and their possible impact on the sustainability of this sector remains a challenge and should be investigated in order to inform policy frameworks for South Africa.

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## HUAWEI TECHNOLOGIES' CREATIVE MANAGEMENT AND INNOVATION

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### Abstract

Huawei Technologies (hereafter Huawei) was founded by Reng Zhengfei with his 5 associates in Shenzhen City in 1987. They only raised RMB21,000 (US\$3,300) as capital for the small enterprise and started their business that imported PBX's (Private Branch eXchanges) from Hong Kong and resold them. The business became the enterprise's first source of profit.

Huawei began to research and develop program-controlled telephones in 1988 and succeeded in 1991. Since such enterprises as big as Lucent, Ericsson and Fujitsu hold almost all the market share in big cities and coastal areas, Huawei could only sell their product in inland areas of China. It was a fact that Huawei's product was not the best but practical, cheap and with best service. The business has been developing from day to day. However, nobody thought Huawei would become such a strong player in ICT (Information Communication Technology) not only in China but also in the world after 24 years. In the 2011 fiscal year, Huawei's net sales were RMB203.9 billion (US\$32.3 billion) with RMB18.5 billion (US\$2.9 billion) of operating income. How was Huawei able to achieve this?

The author researched Huawei as a business case study by literature survey and interview and researched it from the perspective of creative management and innovation. As a result of the research, the author summarized five points in order to explain Huawei's success factors.

The first is the founder's stronger entrepreneurship. Although Reng Zhengfei is an older man of 68 years, he has been challenging new businesses together with younger managers.

The second is R&D policy that is suitable to the Chinese market. Huawei never does anything as pioneer of technology. It always started practical research after the prospects for a technology had been verified.

The third is creative management. Huawei has many original managerial methods, attractive incentive policy including promotion, decentralization and unique stock option system. The purpose is only survival as a player in the world.



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The fourth is marketing innovation. This included Huawei's marketing promotion, sales network, after service and so on.

The last is corporate culture. It became the basis of competitive power, although it was criticized by mass media in China.

In short, this paper will explain some things which were not known about Huawei so far.

**Theoretical Background/Previous Practice:** Huawei is the top maker of information communication Technology in China and a global player in the world. But the actual situation is almost not known. Although there are many books on this company in Chinese market, the information in them is less than reliable.

**Approach/Methods:** Literature survey and interview.

**Results/Insights:** Huawei provides us with a paradigm for a successful Chinese company.

**Implications:** This case study will give foreign researchers and companies some hints about competitiveness of Chinese companies.

**Keywords:** Huawei, ICT, Creative management, innovation, China

## Introduction

Huawei was named the Best Telecom Vendor of the Year (the best-of-the-best award), Broadband Network Vendor of the year, and Best Telecom Vendor of the Year, at a ceremony what was held by Telecom Asia in Singapore on December 1, 2011. Thirteen equipment and software suppliers as well as Ericsson, Cisco Systems, Nokia Siemens Network and Microsoft received 21 awards, but the biggest winner was undoubtedly Huawei. So, how did Huawei obtain such a great achievement? This paper will answer the question from the viewpoint of creative management and innovation.

## History of the company

In 1987, Reng Zhengfei, a 43-year old man established Huawei Technologies in Shenzhen City with five persons. Everyone invested RMB3500 (US\$550) in the small company. But nobody knew what business they should do. After several months later, they



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started a business as a sales agent of PBX (Private Branch eXchange) for a company located in Hong Kong.

Reng was born as the first child of 7 brothers in a family of teachers in Zhenning County, Guizhou Province which was one of the poorest counties in China. So, for him, poverty and hunger left the biggest impression on his childhood and adolescence. Such suffering experience had a great influence on his personality and leadership style.

Reng passed the entrance exam into the Department of Heating Engineering of Chongqing Institute of Architectural Engineering (later it incorporated into Chongqing University) in 1963. Unfortunately, in the latter part of the third academic year, the so-called Great Cultural Revolution began, and the institute stopped teaching as did every college in the country. Nevertheless, he still adhered to the study of higher mathematics, logic and philosophy, and learned a third foreign language by himself.

In 1968, Reng left the institute, joined the Chinese People's Liberation Army and became a soldier of a Corps of Engineering. After 14 years later, Reng was demobilized and came to Shenzhen. He was appointed deputy general manager of a subsidiary of South China Sea Oil Development Group, a state-owned enterprise. But he was not used to the environment of the enterprise. Since he failed in business and caused a loss of RMB2 million to the enterprise, he had to leave the enterprise. Therefore, the real reason for him to establish a small company only was for survival, because he was unemployed.

### **Huawei's competitive strategy**

#### **1. To attack the city from rural**

The 1980s was the period of the first boom of foreign capital into China. For foreign companies, contact with the head office is most important, but China's infrastructure had not been developed yet. In particular, the delay of the communications infrastructure was hampering foreign investment. The Chinese government knew the urgency of this problem and began to resolve it. However, because domestic manufacturers did not have the technical capabilities at the time, it had to introduce some foreign-made equipment. Due to this, the leading manufacturers of telecommunication equipment in the world flooded the Chinese market with computer-controlled switching equipment. Japan's NEC and Fujitsu, USA's Lucent, Canada's Nortel, Sweden's Ericsson, German's Siemens, Belgium's Bell, and France's Alcatel shared the market in China's urban areas, created a confusing aspect of "seven countries and eight systems".



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Reng sensed the size of the market and Huawei's ability. In order to avoid competition with foreign giants, he put all profits that he got from the sales agent of PBX into human resources and the development of computer-controlled switching equipment for rural areas.

Huawei succeeded in product development at the end of 1991. The first shipment (3 sets) all was handmade, but no problem at all in terms of functionality, because it related to the life of the company. Once delivered to the telegraph office of a county in northwestern China, the customer was very pleased.

This would be an opportunity, as new orders came one after another from counties in inland provinces from the next year. Huawei has won in nearly all inland provinces of China in almost five years.

Since 1998, Huawei adjusted the strategy, and began to attack urban areas. Foreign manufacturers have already share in urban areas and had not much warning at first, but when they knew the fact that Huawei was selling the same equipment at third one or half price, all began to take measures in a hurry. In contrast, Huawei took the strategy to collide head-on with the powerhouses. Huawei's employees knew well the difficulty of the strategy, but they were inspired by Reng's strong philosophy and felt attraction to the high incentives, and worked hard. Reng made a variety of preferential policies for supporting the salesmen. For example, to stay at the luxury hotel, to take a taxi from the airport up to the supplier, to entertain customers, to offer rebates, to take a paid vacation in foreign country, and so on. In other words, if the salesman got an order, Huawei will do anything. It is the typical Chinese meritocracy. That is, to obtain result by any means. If someone took a large order from customer, he/she would be honored not only in a big way like a hero, but also be paid a bonus and receive a stock option immediately.

## 2. To attack from emerging to developed countries

After attacking the urban areas and having some experience of competition with foreign giants, Reng felt the saturation and deceleration of the market. Huawei used a low-price strategy in the past, but the foreign companies also did markdown, so the weight of the game by brand would will be increased in the future. If Huawei stopped in its country, profitability would became smaller. Thus, Reng had to think about the next strategy. Foreign manufacturers entered our country, why we do not enter foreign countries? If we can enter foreign countries, the market would be expanded into the world. After thinking carefully, Reng decided to follow the way of international management. Nevertheless, because Huawei



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did not have experience of international management, Reng began to make an international version of “to attack the city from rural” that was a strategy and succeeded in China.

Huawei opened an office in Russia in 1997. Russia was a former superpower, due to the development of military industry which was a large part of GDP, and consumer industry had been delayed. But for a broad land, updating the communication equipment is a perfect market for foreign manufacturers. However, when Huawei entered to Russia, such giants like Ericsson and Siemens had already won the Russian market. Huawei was not a well known company, and when the salesman visited the customer, he was ignored. In particular, because of a lack of household goods, a lot of cheap products were imported from China. Unfortunately, there were many fakes among them. After all, for Russians, the image of Chinese products was only cheap and fake. This was a big problem for Huawei. Since from 1997, the Russian economy deteriorated further, and a weaker ruble was progressing, the investment to the telecom market almost stopped, and foreign manufacturers withdrew one after another. Nevertheless, Huawei did not withdraw and had been actively visiting customers, although no sale for four years. Thus, Huawei was able to have a trusting relationship with the customers.

In 2000, Huawei first took the orders of telegraph switchboard from Ural State and MTS mobile network from Moscow City, opening the prelude of success. In the next year, Huawei received an order of over ten millions dollar in GSM equipment from the Russian State Office of Telecom again. In addition, Huawei made two successful bids in 2002. The one was to build a TELLIN intelligence network for the Russian regional intelligence network. The other was to lay the long-distance (3797 km) optical communication (320G) cable that from Moscow to Siberia. In just three years, Huawei’s sales in Russia went up to \$300 million.

After the business started in Russia, Huawei extended its antennae to the Commonwealth of Independent States (CIS), and steadily expanded their business in these countries.

Huawei’s next target was India. In 1999, Huawei established a research and development center in Bangalore. The reasons for India were its large population, delay of telecommunication infrastructure, and the opportunity of market development. Not only that, the Indian software industry has developed, particularly in Bangalore, its center. So, Reng wanted to attack the world market with own hardware and Indian’s software. Since the Centre got the certifications of CMM Level 4 and Level 5 in 2001 and 2003, it showed that they had highest capability in software development in the world. This R&D Centre plays a



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major role as a bridgehead to develop the Indian market for Huawei. Currently, Huawei has hired 6200 people in India, and than half of them are experts on software and quality control.

After the technical development started, Huawei began attacking the Indian market. In July 2007, Huawei built the CDMA and GSM for Reliance which is a number one enterprise of telecom with an order of \$200 million. Reliance wants to build a next-generation IP network. In February 2008, Huawei provided all IPCDMA to Tata Indicom. The company has 21 million users.

In December 2009, Huawei contracted the construction of the first WiMAX network in India for BSNL, a state-owned telegraph company. This network mainly provided an advanced telecommunication service, high-speed downloads and VOIP for rural in India. Also, in September 2010, Huawei delivered the first GSM network in the world to Loop Telecom and Videocon, both large telecommunication service companies. In this, the two companies could use same network and realize the reduction of operating costs and save time.

Currently, for Huawei, India is the second market of the world after China, and the Indian market sales accounted for about 15 percent of total sales.

In this way, Huawei extended its business in Southeast Asia, South America, Middle East and Africa in succession, and has been expanding its market share.

Next, we describe Huawei's business in advanced countries. The United Kingdom was the first target to Huawei. In 2001, Huawei launched a subsidiary called Huawei (UK) Ltd., in north London. Huawei established the European headquarter that is based on the blessed investment climate in December 2003. Then, Huawei opened several R&D centers or offices in Edinburgh, Manchester and Birmingham, and hired a lot of local talent. Thus, London Export Association elected Huawei as the "Best Chinese Investment" in 2005.

In December 2005, British Telecom (BT) signed a contract with Huawei as supplier of "32 Century Network", after which they finished a two-year certification including the quality of product and solution, development strategy, management system, quality control system, project management and corporate social responsibility. According to this contract, BT would invest £10 billion to this "21 Century Network" over the next five years, and would procure equipment of comprehensive connection and send and receive from Huawei.

In 2001, Huawei created a subsidiary in Germany. As s celebration of the establishment, a project of STNB, inter-city network construction, came from OfalzKom who is a telecom



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company. A few months later, Huawei got an order again for “Land Rheinland-Pfalz Transmission Network Project” from the same company. In 2005, Huawei signed the construction of strategic partnership with QSC, and constructed the NGN network that could cover the whole country.

In France, it was the first order that constructed the network at headquarters of Alston. It was in late 2002. In the following year, Huawei got a successful bid from DWDM, nation’s highway transportation network, from LDCOM. The network has 3311 km, connects the major cities, Paris, Leon and Geneva, Switzerland. We can know Huawei’s presence in France through the project.

Huawei strengthened the offensive in Europe since 2004 and now is doing business in nearly all European countries.

In 2001, Huawei established Huawei (North America) in the city of Plano, Texas. In the following year, Huawei launched a Subsidiary, Future Wei, and began local production. Huawei’s first advertising was extremely challenging in America. It was against the backdrop of the Golden Gate Bridge in San Francisco with the catch phrase, “price is only one difference”. Since Cisco System’s Logo is the Golden Gate Bridge, we can know the intent of the advertising. In fact, in American market of cheap goods, Huawei’s price was 50% cheaper than Cisco.

Cisco System was furious and took action immediately. On January 24, 2003, Cisco System sued Huawei in the Eastern District Court of Texas, saying it violated its software patents. On March 17, 2003, in response to Cisco System’s suit, Huawei submitted a written answer, including 116 items to the court. Among them, 109 items were rebuttals, 7 items were claims of defamation.

Exactly the same time, Huawei just signed a contract of establishing a joint venture company in China with 3COM, an American company and Cisco System’s rival. Therefore, when the first public argument was held in court, the CEO of 3COM made a testimony in favour of Huawei.<sup>(1)</sup> In addition, as the third party appraisal, an expert of computer system of Stanford University testified against Cisco System.<sup>(2)</sup> After all, before a judgment was concluded, Cisco System and Huawei announced a joint statement to discontinue litigation on October 1, 2003. July 28 of next year, Cisco System, Huawei and 3COM offered to terminate the litigation in the court, and settled.



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Because there was such a thing, Huawei delayed the extension in American market, but what they gained was more than what they lost. For example, they understood how difficult competition was in American market, their awareness of intellectual property rights was strengthened, and they began to put strength into independent development. In addition, an unnamed Huawei became a well-known company in media reports suddenly.

On December 8, 2004, Huawei completed the project of CDMA2000 for NTCH, an American telecom company. As the saying goes, “All beginnings are difficult”, and to obtain the first order is most difficult. However, after getting an order from one company, other companies will be influenced. So, since then, Huawei’s business in the United States has been expanding. For example, in August 2006, Leap Wireless, a mobile telephone company, asked Huawei to build a 3G network. In the next year, the company ordered a CDMA2000 network from Huawei again. Nextwave Broadband introduced a facility of mobile WiMAX from Huawei in 2007. In March 2009, Cox Communications, one of the three large cable TV in the United States, ordered SingkeRan solutions for LTE and base stations of advanced 3900 Series from Huawei. In the same year, Clearwire, the number one company of WiMAX service in the world, appointed Huawei as the main supplier of WiMAX network across the country. In 2009, Mediacom asked Huawei to construct the OTN network. In 2010, Cox Communications chose Huawei gain to build the test network of LTE.

In November 2005, Huawei founded its Japan subsidiary in Tokyo. It started with 20 people, but as of May 2012, the employee count has reached about 500 people, with 75% of them though local hiring.

Huawei Japan’s first business was from e-mobile that is a subsidiary of e-access. In July 2006, e-Mobile, the fourth player in Japan’s mobile market, asked Huawei to provide the equipment of WCDMA and HSPA (high-speed packet communication) network, in order to take a differentiation strategy with there other players. It made Huawei and e-Mobile build a partnership relation. So far, Huawei got the contract to expand existing facilities from the latter, and have been providing continuously the newest mobile terminal on request of the latter. In other words, Huawei is supporting the advancement of e-Mobile in the background.

The three rival companies look at the good fight in e-Mobile, they took same actions. In May 2009, Softbank announced that they would raise Digital Photo Frames of support Asia’s first 13G network from Huawei. In November 2009, NTT DoCoMo ordered the large screen digital photo frame compatible 3G network from Huawei. In addition, KDDI purchased mobile Wi-Fi routers to achieve high-speed communication from Huawei.



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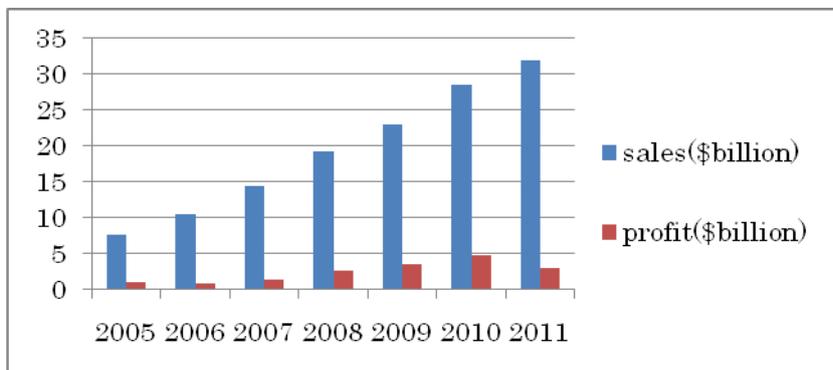


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In this, we understood Huawei's competitive strategy with global management. That is, Huawei changed the strategy of "attack from rural to urban" that succeeded in China to "attack from emerging to developed countries", and has been doing global business. The history of the strategy is only about ten years, but its effect has already been seen. It is seen from the transition of Huawei's sales and profits. (Figure.1)

Figure.1



Source: Huawei's Annual Reports. \$1=RMB6.37.

### Huawei's creative management and innovation

#### 1. The use of Mao Zedong's military thought

Reng was in the army from 1968 until 1982. In that era, Mao Zedong's military thought was the only one guiding ideology. Whether ordinary soldier or officer, both wore the same uniforms, and because the military rank system had not yet been reinstated, they had to read Mao's books every day under the equality awareness between soldier and officer. In particular, Mao had written many articles about how the weak win over the strong. Moreover, the correctness of Mao's theories was validated by the practice in China. For example, "besiege the city from rural areas, and eventually occupying the city", "to attack the weak parts of the enemy by dominating forces", "strategy is to ignore the enemy, and tactic is to focus the enemy" and so on, everyone remembered enough to recite the sayings of Mao Zedong. Reng was eager to study. He had been chosen as "exemplary learning model of Mao Zedong's books" many times.

Because of such career, even after Reng left the army and put himself into the world of business, he often thought about competitive strategy using Mao's military theory. Such



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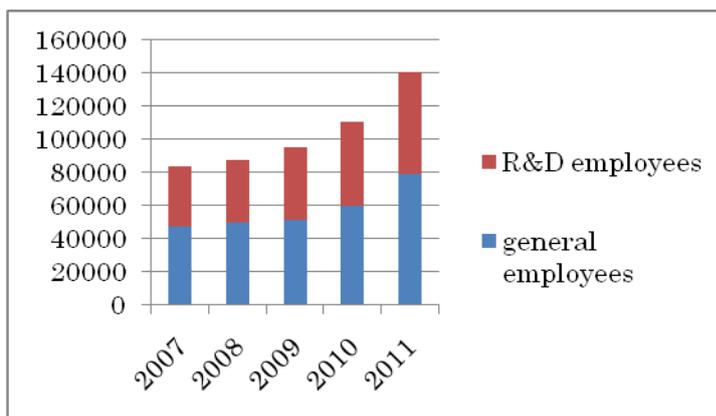
competitive strategies, "attack from emerging industrialized countries", "attack the city from rural areas", were born from this background. Concerning the phrase "to attack the weak parts of the enemy by dominating forces", he practiced well. For example, if Huawei wanted to join a bidding, Reng would mobilize the company to complete the sample of the equipment or solution and bring them to customer faster than competitors. In many cases, the customer did not necessarily think of Huawei's product or solution, but was impressed by its speed, enthusiasm and ease and finally chose Huawei.

## 2. Technology-driven company

We know for fact Huawei has been following the way from surveys so far.

Shortly after the establishment of the company, Huawei began to recruit actively college students in science and engineering, in order to develop their own products. This tradition does not change even now, and the number of hired college students has been increasing. For example, R&D employees include 62,000 people, accounting for 44% of all employees of more than 140,000 in 2011. (Figure.2)

Figure 2



Source: Huawei's Annual Reports

So, what are they doing? Huawei's R&D policy is the second runner-up principle. That is, when the top R&D company in the industry finished the development of new technology or new product and the commercial value was validated, Huawei put intensively the management resources into R&D. This approach is similar to the former Matsushita (now, Panasonic). In order to reduce the risk of advanced development, Matsushita began chasing,



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after Sony launched the new product and the market was shown. Furthermore, instead of the R&D cost, since a lot of advertising costs were used, Matsushita's profit was higher than Sony after all. Such cases are known widely in Japan.

Speaking of changing the perspective, Huawei's capabilities in R&D have not yet reached the level of first class. There is no doubt about this. Huawei never hires top scientists. Instead, Huawei hired a lot of students and graduates students who majored telecommunication at science and engineering university every year. In other words, Huawei is developing applied technology that related to problem solving by human wave tactics. This is seen from the company's name that includes "technology" but not "science". General speaking, these two words are used at the same time. However, Reng is not also a universal principle technologist. He often said, "A technician should not be worshiped as in a religion of technology, rather he must become an engineer merchant", and "Only such a technology which can become money is valuable". In order to know the real needs of customers in the market, Huawei made 5% employee of R&D division to transfer to market division, and on the contrary, made some people from market division enter into R&D division every year.

However, it is not good if Huawei, is criticized for technology theft or mimicry continuously by the rivals. In order to give up this stigma, Huawei has been focusing on technology development in-house and patent application. Through the efforts of recent decades, Huawei's number of patent applications became number one in China and reached the top level in the world. For example, according to the announcement of the World Intellectual Property Organization (WIPO), Huawei's international application for 1831 was ranked in three of 1831. Figure 3 is a transition of the number of patent applications of Huawei.

Needless to say, the core technology which can prevent rival's R&D is still small. The majority is improvement of non-core technologies. However, as shown in "from quantity to quality" which is one of the principles of Brainstorming, in order to obtain a good idea, one must get a lot of ideas at first. In recent years, Huawei has already led the industry on the patent standards of 3GPP LTE RAN. Figure 4 showed the more information.

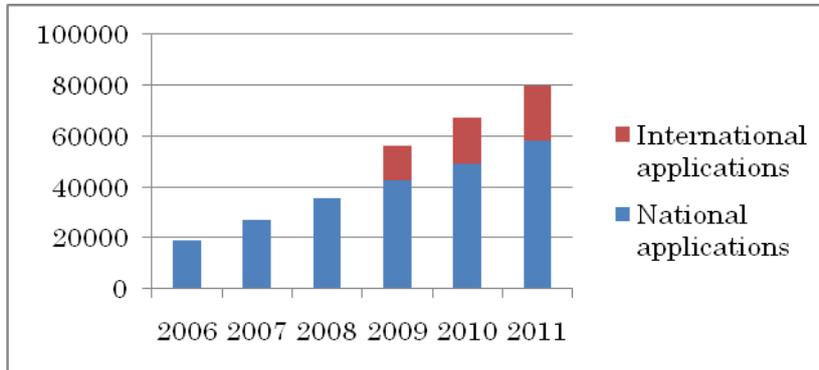
**Figure.3**



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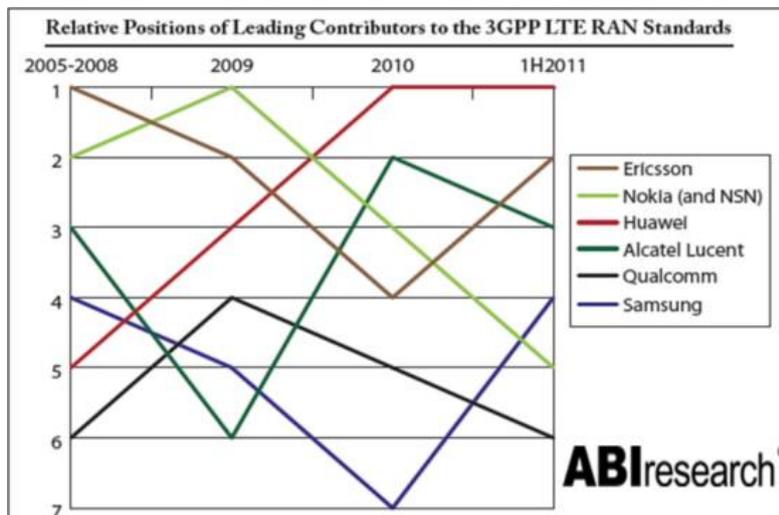


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Source: Huawei Annual Reports.

Figure.4



Source: Huawei's Press Release, December 29,2011.

As of December 2011, Huawei had 23 laboratories in China, USA, Germany, Sweden, Russia and India. These laboratories are playing a role in order to make the added value of the customer by being in a spot close to the customer.

According to Lida Yan who is the president of Huawei Japan, Huawei's technology has already reached the world class level.<sup>(3)</sup>



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### 3. Partnership with the world's powerhouses

Reng understood well the weakness of himself and Huawei, so he always had a sense of crisis. As regarding the areas that he did not have the ability to develop in-house, he would propose to the leading company to make a partnership. Needless to say, if Huawei is weak, no company would normally accept his proposal. Nevertheless, whether they were impressed by his sincerity, or realized Huawei's potential value from looking at the competition in Chinese market, the world's powerhouses came to meet his demands.

For example, in December 2000, Huawei announced that they would build a joint lab in Shenzhen headquarters with SUN. According to the press release, Huawei would provide the place and working environment, and SUN would provide equipment including server, workstation, operation system, application software and simulation tool. So, was there any benefit for SUN? They probably wanted to use Huawei's sales channels and maintenance forces to expand sales of the product and strengthen the after-sales service. On the other hand, for Huawei, the larger benefit is improvement of technical capabilities.

Since then, Huawei has been working in partnership with the giants of the world in two ways. As mentioned above, one is the joint research institute (experimental lab, laboratory). Another is to create a joint venture. So far, Huawei has launched a lot of joint projects with the powerhouses of the world in both hardware and software of telecommunications. The details are summarized in the following table.

| Month & Year  | Partner                 | Project  |
|---------------|-------------------------|--|
| December 2000 | SUN (USA)               | Establishment of a joint experiment lab                            |
| December 2000 | AT&T (USA)              | Consulting   |
| November 2001 | NEC, Fujitsu(Japan)     | Joint development of the ASIC chip                                 |
| June 2002     | NEC, Matsushita (Japan) | Joint Venture in Shanghai  |
| October 2002  | Microsoft (USA)         | Establishment of a joint experiment lab on software technology     |
| October 2002  | NEC (Japan)             | Establishment of a experiment lab on 3G mobile network in Shanghai |
| March 2003    | 3COM (USA)              | Establishment of a joint venture in Hangzhou                       |
| March 2003    | Nokia (Finland)         | Mutual use of the patent WCDMA                                     |



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|               |                             |  |
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| February 2004 | Siemens (Germany)           | Joint Venture in Beijing                             |
| April 2005    | Intel (USA)                 | Joint construction of Broadband                      |
| July 2006     | Motorola (USA)              | Establishment of a joint research center in Shanghai |
| May 2007      | Symantec (USA)              | Establishment of a joint venture in Chengdu          |
| May 2008      | Samsung Electronics (Korea) | Joint development of business solutions              |
| November 2009 | Vodafone (UK)               | Establishment of the Innovation Center in Italy      |

Source: Huawei Annual Reports.

#### 4. High quality, low price and good service

There are a lot of people who have doubts about Chinese products in Japan. Indeed, Chinese products are exactly the same as the products of postwar Japan, with a cheap and bad reputation. However, the catch-up of Chinese companies has been remarkable in recent years. Competitiveness of price goes without mention, but in addition the quality has been improving and become closer to the products made in Japan. In particular, because the competitive companies such as Haier and Lenovo received good reputation in the market, Huawei's brand value has been growing quickly in the world.

So, what about Huawei's products? As mentioned above, Huawei has already become a full-fledged global enterprise, it is impossible to conduct business in the world without high quality. For the company, ISO9000 and ISO14000 are a matter of course. Not only that, Huawei always has continued its efforts in light of industry-leading standards.

In Japan, there is a good example. When the big earthquake occurred in the eastern Japan on March 11, 2011, most mobile phones had communication failure in Tokyo metropolitan area. But e-Mobile phone that introduced Huawei's equipment was able to connect successfully. After the earthquake, Softbank, NTT DoCoMo, KDDI ordered to Huawei. In other words, the high quality of Huawei's products was verified in the earthquake.

However, in the first half of 1990, Huawei's product was far from high quality. Nevertheless, it was cheaper by 30% or 50% compared to the rival, so buyers ordered. When a quality issue occurred, Huawei's engineers rushed to the scene immediately, worked hard in both day and night until the problem was resolved, and thereby earned a reputation of good service from the customer. Once, Huawei had a reputation in China, of "Third-class product,



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second-class sales, first-class service”. Currently, the failure rate is very low, but the principle of service has not changed. Although Huawei is doing business in more than 140 countries in the world, when a problem occurs, the engineers will arrive within 24 hours from the nearest service center in the field.

In addition, unlike the old way, Huawei will attempt to break with the low price. In the old days, they competed with lowest price, but in recent years, their offer price has been increasing. Nevertheless, when compared to rivals in Japan, the United States and Europe, Huawei’s products still are cheaper. For example, The Mobile World Congress (MWC) was held in Barcelona in February 2012, Huawei’s smart phones are cheaper than those of the rivals

Such a high quality, low price and good service are supporting the sustainable competitiveness of Huawei.

## Summary

This paper is the result of case study by literature research and interviews about Huawei, a global company from China. But for unlisted company, published information about Huawei has been limited. About this, the media and researchers have often criticized Huawei. But Reng Zhengfei refuted openly, “because we are not listed company, we have no obligation to publish the information”. However, if Huawei sticks to the principle of private, the global management must be difficult. So, Huawei began to publish an annual report from 2006.

When I finished the case study, I started to think about the reason why Huawei had such outstanding achievement. I knew there are many factors which related to Huawei’s successes, but I would like to explain it with a perspective of creative management and innovation because we can find many things from the company that validate this point of view. For example, Reng Zhengfei, the founder of Huawei is obviously a creative entrepreneur. His managerial philosophy involved creative thinking, creative decision-making and creative problem solving. Huawei’s corporate behavior involved many innovations not only product development, but also marketing strategy, human resource management and so on.

In short, Huawei is a global company that is from China and has been growing rapidly. The research on the company will be valuable.



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## Notes

<sup>1</sup> Huawei's Press Release, March 25, 2003.

<sup>2</sup> Ditto.

<sup>3</sup> The author's interview. May 14, 2012.

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# IV. TECHNOLOGY AND STRATEGIC ENTREPRENEURIAL GROWTH



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## EMOTIONS AND AESTHETIC OF CREATIVE LEADERSHIP IN SMALL TECHNOLOGY FIRMS

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**Objectives:** This paper aims to explore and reveal the way leaders and their followers give meaning to the physical environment as part of creative leadership phenomenon in small high-tech firms.

**Theoretical Background/Previous Practice:** Previous studies on small high-tech organisation focus only on understanding the antecedents, such as roles and motivation that influences the performance of creative leadership, and less on exploring the interactions of creative leadership and its physical environment and the perspectives of the actors. This study shows that the actor's perspective, their meaning making process of the physical environment, and the emotions that emerge in this process is crucial to understand creative leadership. This has been largely ignored in the previous studies. To achieve this objective, this study uses abductive research strategy with case study method.

**Approach/Methods:** Abductive strategy captures and transforms knowledge from lay language and to technical language and case study method is used as evidence to the stories as narrated by the actors. Data was collected from two small high-tech firms and two small low-tech to understand creative leadership phenomenon in small high-tech firm. Small low-tech firms are used as a comparison to make the study more robust and to increase the understanding of small high-tech firm.

**Results/Insights:** The findings show that the physical environment or aesthetics of the workplace is meaningful for leader and followers in small technology firms and generate various emotions. Leader and followers in small hi-tech firm feel joy whereas leader and followers in small low-tech firm feel love as they interact with their environments, which



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help them in their creativity. However, leader and followers in small hi-tech firm enjoy going to conferences and leader and followers in small low tech firm love to go to bar and coffee shop to boost their creativity. Thus, this study shows that physical environments are important elements in creative leadership phenomenon in small technology firms.

**Implications:** This study is a departure from the conventional research on creativity and entrepreneurship and offers new insights both to the academics and the practitioners to consider the subjective side of individuals as part of creative leadership process.

**Keywords:** Creative leadership, aesthetics, emotions, small high technology firms

## Introduction

The objective of this paper is to reveal part of findings on understanding creative leadership phenomenon in small hi-tech firms' research. The role of small hi-tech firms in economic growth and innovation is widely recognised (Mohd Yunos 2002). However, it is difficult for this type of firm to growth and survive given the entrepreneurial nature of hi-tech firms (Soetanto 2006) and the fact that they deal with technology innovation especially at the early stages of development, which requires them to be innovative (Zhao 2006). Therefore, the challenge for the leaders of hi-tech firms are to lead their followers to think creatively and to act innovatively (Basadur 2004). The actions of the leader and followers to think and act creatively and innovatively are developed through their interaction in their everyday life. This interaction is developed based upon the meaning that is created through personal thinking and the information that they had exchanged in their social life (Mead and Morris 1992). The leader and followers thinking approach are developed through experiences that are socially constructed. Even though these actions are socially constructed, the leader and followers' thinking and action change overtime because of new knowledge that they exchange through the symbolic interaction between individual leader and followers within the society in their everyday life (Hewitt 2007). Also, the meaning making process through interaction does not happen in a vacuum but in particular physical place (ibid). Furthermore, it is argued that interactions between the leader and followers are accompanied with emotions (ibid). Hence, understanding the meaning that leader and followers give to their physical places or environment will contribute to the understanding of creative leadership phenomenon itself as it will explain the type of physical places that are meaningful to them and hence produce emotions. Therefore this paper aims to explore and reveal the way leaders and their followers give meaning to their physical environment as part of creative leadership phenomenon in



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small hi-tech firms. To achieve this objective, this study uses abductive research strategy with case study method employing interpretive symbolic interactionism as theoretical background.

Understanding creative leadership phenomenon in small hi-tech firms using meaning making process has been largely ignored in the previous entrepreneurship research (Berglund 2007). Previous studies on small hi-tech firm focus mainly on understanding the antecedents, such as roles and motivation that influence the performance of creative leadership process, and less on exploring the perspective of the leader and followers on their own emotions and the meaning they given to the physical environments. This study shows that the leader and followers' perspective, their meaning making process of the physical environment, and the emotions that emerge in this process is crucial to understand creative leadership phenomenon. Therefore, this paper briefly reviews literature to provide a background to the study. The methodology followed for the study is outlined and the findings of the study are highlighted and discussed. This paper concludes with implications for hi-tech leadership and recommendations for future research.

## Literature review

The literature that relates to creative leadership theories is reviewed in this section to understand the various perspectives that explain the phenomenon. It is found that recurrent of creative leadership theories are derived from creativity theories such as Propulsion Model of creative leadership that combine with cognitive theory of creativity (Sternberg, Kaufman et al. 2004). However, these studied tend to focus on traits and componential theories of creativity. The literatures that relates to leadership and creativity theories are also reviewed as a background understanding for interpretation process (Blaikie 2010). From the reviewed literature, it is found that there is paucity of theories that could explain creative leadership phenomenon especially in small hi-tech firms. There is also paucity of research regarding creative leadership theories that can explain the leader and followers' emotions and the association with physical environments. Previous creative leadership's theories only address issues pertaining to the leader and followers' traits and cognitive (DiLiello and Houghton 2008) and the approaches that leaders use in their thinking process (Sternberg, Kaufman et al. 2004). Also, creative problem solving has been viewed as one of the important skills for creative leaders (Puccio, Murdock et al. 2007). This stream also included emotional intelligence as traits (Goleman 1998) that explain creative leadership implicitly. Another stream of literature on creative leadership focuses on components that can increase creative



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performance of leaders and followers. For instance, Skills Model of Leadership argues that leaders' creativity is influenced by individual attributes, competencies, experience and environments (Mumford, Zaccaro et al. 2000). Transformational leadership (Bass 1990) and Basadur Creative Leadership (Basadur 2004) mainly discusses leader stimulation for creativity as one of components for promoting creativity. However, these researchers seem to be only concerned with antecedents or mechanisms that influence creative leadership performance to explain creative leadership phenomenon but not on their emotions and association with physical environment. Therefore, research that use meaning making process that focuses on enacted emotions with physical environment to understand creative leadership phenomenon are rare and should be explored.

Accordingly, in order to understand the meaning making process of physical environments that enact with emotions, it is also important for this study to understand creativity theories and emotion concept as background knowledge. Creativity theories are important since creative leadership theories stem from the creativity theories. Creativity theories can be categorised into four main categories. First category is stream from cognitive and quality theories. Recurrent of researchers that follow cognitive view believe creativity is associated with intelligence and it is gifted. For example, the Threshold Theory of Creativity (Sternberg and Lubart 1999). Researchers in this category also believe that creative individuals have certain qualities such as openness, proactive and risk taking. The second category stem from componential theory. Componential theory focus on the set of components that can increase creative performance of the leader and followers (Amabile 1983). A third category stem from system theory that explains creativity from the social system point of view. This stream is not only focused on the creative performance but on the creation of creativity. This theory believes that creativity exist because of the interaction between the individual (personal quality), domain (organisation culture) and field (society) from a set of rules and practices system (Csikszentmihalyi 1988). The final category is a stream that emerges from co-evolving system theory. Co-evolving system theory believes that individual creativity is developed from the individual cognitive and traits which influence the group or societies' creativity and at the same time shapes the cognitive and traits of individual creativity is also influence by the society (Gruber and Wallace 1999). This study position itself within the stream of co-evolving system theory. This framework can explain the association of emotions and physical environments. The leader and followers' creativity in small hi-tech firm are associated with emotions that are influenced by physical environment. At the same time, the shape of physical environment is influenced by the individual emotions in the group.



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There are no agreed definitions for the concept of emotion. Emotions are used interchangeably with feeling, mood and affect especially in entrepreneurship field (Michl, Welpel et al. 2009). Following this perspective, this study also regard emotion as feeling, mood and affect since there are no clear guidelines that can distinguish emotion with feeling, mood and affect. Feeling and emotions are important because it influences the actions of the leader and followers through individual perception, interpretation, control and evaluation (Kupers and Weibler 2008). Nevertheless, the main objective of this study is to understand creative leadership phenomenon and not studying emotions in particular. It is however, important to understand emotion theories because the understanding will help in making sense of the stories that are told by the leader and followers in small hi-tech firms. Emotion theories can be viewed from two main perspectives (Manzoor 2012). The first view regard emotion as materialistic that view emotions as naturalistic. The other view is social and relational perspective that regards emotion as meaning making device. However, these perspectives are not discrete but interrelated (ibid).. Based on symbolic interactionism theoretical framework, this study employs the middle perspective on emotions. From this perspective, the stance taken is that the materialistic, social and relational perspectives influence each other in creation of emotions. The individual leader and followers use their cognitive ability to appraise situation for creativity based on their cognitive-emotion. At the same time, situation shaped the individual cognitive-emotion. Emotion itself can be categorised as positive and negative emotions. Based on categorisation of basic emotions, positive emotions contain emotion of joy, love and surprise while negative emotions consist of anger, sadness and fear (Shaver, Schwartz et al. 1987). Also, positive emotions are known as pleasant emotions (ibid). This emotions can be captured through language (Hewitt 2007). Leaders and followers narrated their experience that relates to physical environments and portray their emotions based on recalled experienced (Ladkin 2010) which is shown in their stories and body language.

## Methodology

Interpretive symbolic interactionism believes that reality is multiple and it being labelled according to individual experience (Denzin 1992). It holds that knowledge is created through meaning making between individual self of leader and followers and the society in the particular environment (Charon 2010). Accordingly, the conduct of this research is based on epistemology of constructionism and ontology of idealist (Blaikie 2010). Everyday



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knowledge is the outcome of people having to make sense of their encounters with the physical world and other people, and the role of researcher is to reinterpret this everyday knowledge into technical language or epistemology of constructionism, and ontology of idealist is about reality are the creation of human mind (ibid). Abductive strategy is the suitable strategy that is in line with the paradigm used for this study. This strategy captures and transforms knowledge from lay language to technical language compared to other strategy such as inductive, deductive and retroductive. Beside abductive, other strategies cannot capture the meaning making process that can bring out the hidden meaning through interpretation (Blaikie 2010). However, this strategy has been criticised for its reliability because the knowledge is constructed by the researcher and it is considered as bias (Merriam 1988). Conversely, because this approach employs interpretive paradigm which cannot be generalised for statistical generalisation (Flick 2009), the issue of bias is unfounded. Also, the researchers that are involved in the field work understand the phenomenon better because they interact with the actors who are involved directly with the phenomenon. Furthermore, the researchers involved in the field are the expert and their claim should be valid because there are no absolute truths (Saunders, Lewis et al. 2007).

This study employs case study method with abductive strategy to increase the reliability and validity of the knowledge (Merriam 1988). In this case, case study method is used as evidence to the stories as narrated by the leader and followers (Yin 2009). Other studies also combine abductive case strategy with other approach such as ethnography to increase the reliability of the study (Visconti 2010). Ethnography approach is the best approach to understand creative leadership phenomenon because the researcher is involved directly in the field through participant observation. Unfortunately, this study did not use this approach because the firms' entrepreneurs refused to grant permission for participant observation. Besides interviews, other data sources such as direct observation, photograph and documents are collected to support the stories. Other voices also had been interviewed to increase the robustness of this study. Direct observation is different from participant observation. Whereas, for direct observation, the researcher only observes the environment during informal visit to the firms or during the interview session (Yin 2009). For participant observation the researcher observes the behaviour of the respondent during a particular time frame (Saunders, Lewis et al. 2007). In this study, the researcher observes the business premises' landscape, building architecture, and office layout. The researcher also observed the facial impression and body language of the respondents during the interview session to capture their emotions. All the observations are reported in the field note that researcher wrote after the interview session. The researcher took the photographs of the landscape,



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building architecture and office layout, either before or after the interview session. The researcher always asked permission for the photographs taken. Photograph in the website or in the face book also being taken and observed to feel the emotions of the respondents. Website, Facebook, blog and other documents are the documents that researcher observed to understand the stories told by the leader and followers. Other voices that the researcher interviewed are the industry expert, successful entrepreneur, leader and consultant involved in the industry. Four other voices from hi-tech sector and three from low-tech sector were interviewed. Questionnaires were administered to examine the effect of the leader and followers' believe on their creative potential, creative practice, and leadership style was collected. The purpose of documents and questionnaire are more on providing background knowledge to the researcher to facilitate interpretation (Gruber and Wallace 1999).

Interview is the main data sources for this study. This study used in-depth interview with narrative inquiry approach. There are five narrative inquiry approach features (Riessman 2008). First, themes emerge from the interview transcript. Second, interviewer is very active present in the conversation. Third, the transcript opens up issues of emotions in the interviews and how to present them. Fourth, the interview transcript creates experience for audience and lastly, the transcript opens up questions about determining the boundaries of a narrative. The researcher had asked the questions based on the interview protocol as a guideline for the interview session (Legard, Keegan et al. 2003). This interview protocol is use for sensitising concept and not for testing the framework (Blaikie 2010). Therefore, the meanings behind the interview transcript are captured and not the direct answers (Ritchie and Spencer 1994). The researcher also observes the emotions and is involved with the respondents' emotion where the researcher can feel the emotions every times the interview transcripts were read. The process of the interview is very important because the researcher had to understand the stories and able to capture the lay language and transforms it into technical language. Therefore, the entire interviews are recorded in the tape recording that have high quality recording and also all the information that were unrecorded in the tape recording are recorded in the field note immediately after the interview.

The researcher investigated all the related documents such as blog, Facebook and website to understand the respondent background and personalities before going to the interview's session. For instance, the researcher had contacted respondent through phone to confirm the interview session and come to know that the respondent work from home and also heard the



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voice of the children. The researcher believes that the respondent is fatherly type and loves his children. The researcher then used this information to tackle the respondent to make him feel happy and ease so he will feel open and tell his stories openly to the researcher. The researcher also gave the participant consent form to be filled in by the respondent. Then the researcher will give short briefing about the research and ask permission to fill in the questionnaire. The blank questionnaires are given to the respondent so the respondent can go through the questions while the researcher read it. Then the researcher will tick the answer once the respondent gives the answer. Some time the respondent asks for further explanation on some question that ambiguous for them. Then the in-depth interview started with the tape on after the researcher asked permission. The researcher had to be alert with the respondent's emotions that been recalled, retrieve the background knowledge and link it with the respondent's stories to develop in-depth question, question the same issues in different way to increase validity and compare and contrast the answer with other respondents' answer to understand the whole stories that happened in those related firm. The interview process is very time consuming and stressful. Therefore, the researcher can only interview the respondents up to three people in a day to get the quality result. The thinking process did not end after the interview session because more information was provided during informal conversation after the interview session. That information is recorded immediately after the conversation in the field note. The data collection exercise took seven month.

Data was collected from two small hi-tech firms and two small low-tech firms within the information sector. Small low-tech firms are used as a comparison to make this study more robust and to increase the understanding of small hi-tech firms (Blaikie 2010). Extreme cases are the best comparative approach to understand the phenomenon and increase reliability (Yin 2009). Hi-tech firms that involve in information sector are the firms that deal with telecommunication (goods and services including manufacturing) and information technology (goods, services including manufacturing) (OECD 2009). On the other hand, firm that only involve in the information content (film production, information services and media) are label as low-tech firms (Ibid). Both hi-tech and low-tech are chosen within the category of small and young firms which is defined as independent firm with less than 49 employees (OECD 2005). The firms are deemed young because the firms' ages are between one to ten years of start-up (Calvo and Wellisz 1980). The first hi-tech firm is a creative agency that involve in website design. This firm is categorised as hi-tech firm because they use most current software in their design. The second hi-tech firm is involved in software development for bioinformatics industry that uses open source coding. The first low-tech firm is the public relation (PR) agency. They use content of information to proceed with their work. The second



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low-tech firm is a finishing publishing firm. This firm is involved in finishing work of publishing firm such as cutting pamphlet with machines. These firms are technology firm because they are involved in technology in their everyday activities. Technology is the human activity that produce technical-related intellectual product (Smith 2006).

## Finding

There are two main finding that emerge from the leader and followers stories. First, both firms experienced emotions of joy and love that indicate leader and followers in both firms experienced positive or pleasant emotions. Second, both emotions are associated with physical places such as business premises, conference, coffee house that indicate those places are meaningful for leader and followers in those firms. Citation below shows the example of accounts that leader and followers in both firms told. Table 1 and 2 shows how those pleasant emotions associated with physical places.

### Citation of pleasant emotion in small hi-tech firms:

“... and you kind of interact with the whole group. I am in the corner, but I quite like being in the corner and I can see everybody, and it’s quite, I think kind of, its gets more of that communal feeling when you are all facing each other. If you like a team and you sort of, you don’t have to strain or turn around to look each other. And we have got enough room to do our own thing. So it’s not like, it’s not like we haven’t got enough space, we are not crammed in anymore, We have got plenty of room and I quite like facing everybody”

(Leader HTF1)

This account shows the emotion of love where the actor experienced adoration, fondness and liking for the physical place. The leader loves the table arrangement for the working place within the office layout. He likes the arrangement because he can communicate freely with the team member without physical boundaries. The leader and followers’ creativity are fostered because of the office layout.



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“...and of course, you know emotions. How you are feeling that particular day. It’s hard to be creative when you are in bad mood...or when you feel ill. So I think in here, we have got, we are lucky now because we have got a lot of room to walk around. If I need to get away from everyone, I just can go to that room; I can come in here for five minutes and just get away. Whereas before, when we were in tiny shop which probably was not much bigger than this room”

(Leader HTF1)

This account shows the emotion of joy where the actor experienced enjoyment, amusement, satisfaction and glee for the physical place. The leader enjoys having incubation or getting away for a while within the business premises architecture. Incubation is one of the actions that contribute to foster creative thinking process. He enjoys spent time around the rooms in the business premises for escapism.

“Our staff we send them to conference or meetings you know if we ‘ohh there is this seminar here, I mean I cannot go I mean you are working on that, that might be interesting to, would you mind to go?’ and ‘yeah, yeah I can help you to go’ and go there and getting handout you know, they have their business card so and they come and say ‘ohh I meet this guy, this guy and they are doing this’ yeah so. We try to keep them moving around a bit so I suppose so they can see other people and they get hang out of it you know the networking they do can bring new ideas and new business as well I suppose. We don’t want to have staff just keep them there and do, so we have to get them out of the box and talk to other people”

(Leader HTF2)

This account shows the emotion of joy where the actor experienced enjoyment, amusement, satisfaction and glee for the physical place. The leader enjoys having incubation or getting away and ideas generation from the conference. They enjoy spent time in the conference where they get new knowledge that interested them and also new networking.



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### Citation of joy and love in small low-tech firms:

“ I think our old office even though it was beautiful, it didn’t have a separate room and I think when we all need time to sit and have some space, we can all work in here now and is separate and because we all on the same floor and we are a small team and I am there as well and I am not stuck in the office away. I think that really help because we can talk about ideas as constant flow of ideas and energy so this layout is much better than our other lay out because we had the upstairs and downstairs because we in one floor. I think work much better”

(Leader LTF1)

This account shows the emotion of love where the actor experienced adoration, fondness and liking for the physical place. The leader love to move to her current office compare to her old office. She like the building architecture because she can stay with her team at the same floor and discuss on idea generation. The leader and followers’ creativity are fostered because of the office layout.

“Space, having space, what I like about here is we have our own space. So you can work outside and step away from the business but still be in the business. So we have that big yard out there and when you bring the dogs out there as well. Is that distraction again? You can’t be, I know I am unplug ‘dum dum dum’ constantly on the go, on the go on the go. But I can step away from it and sometimes you need actually to step outside the place to step away from it. So if I am in here like ‘aaaa got to get stuff, got to do that’. And then you get to the point where you can’t almost think straight, is nice to be able to walk outside, play with the dogs, yeah we have a tree, is quite nice to have the tree and we put the bird feeder on it. You know, this little things like as you going ‘awwww bird around there and got seagull. And is nice and light, and airy as well out there. We get the sun come in, is nice to have that bit that you can, you not just stuck in the warehouse with no light and no nothing and at the end of the day you walk out ‘well, I miss the whole day’. You have to be able to step outside, see a part of the day, and get the bit of fresh air, but is no more than fresh air around here. But it is nice to be able to do that little bit”



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(Leader LTF2)

This account shows the emotion of joy where the actor experienced enjoyment, amusement, satisfaction and glee for the physical place. The leader enjoys having incubation or getting away for a while. Incubation is one of the actions that contribute to foster creative thinking process. She enjoys spent time outside the business premises for escapism.

“Actor 7 and I pop down to ermm the golf and country club down the road yesterday and sat there like an hour and a half. We purely on the business. We planning ermm where we are, where we want to be, you know where the team are thinking of new ideas, thinking of ways that we can kind of educate them. Get them better running. So I think it is, it make huge relief the fact the time you do that, I think it is also making, making that shift between thinking, actually getting away from this office and not being at your computer for 8 hours a day, every day. It actually ok, it is not , you not slacking that time equally a lot more important than you spend sitting at the desk typing email to client or on the phone”

(Leader LTF1)

This account shows the emotion of love where the actor experienced adoration, fondness and liking for the physical place. The leader love to discuss some ideas at the informal social place such as at golf and country club. She love to stay away for a while from the office and experienced something different while doing her business activities. The leader and followers’ creativity are fostered because of the informal social place.

Table 1: Citation of pleasant environment in small hi-tech firms

| Places        | Citations of positive emotion  |
|---------------|--|
| Office layout | “I quite like being in the corner and I can see everybody, and it’s quite, I think kind of, its gets more of that communal feeling when you are all facing each other. If you like a team and you sort of, you |



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|                |  |
|----------------|--|
|                | don't have to strain or turn around to look each other"  |
| Office premise | "We are lucky now because we have got a lot of room to walk around. If I need to get away from everyone, I just can go that room; I can come in here for five minutes and just get away"                       |
| Conference     | "Our staff we send them to conference or meetings... and go there and getting handout you know, they have their business card so and they come and say 'ohh I meet this guy, this guy and they are doing this" |

Table 2: Citation of pleasant environment in small low-tech firms

| Places           | Citations of positive emotion  |
|------------------|--|
| Office layout    | "I think that really help because we can talk about ideas as constant flow of ideas and energy so this layout is much better than our other lay out"   |
| Office premise   | "... is nice to have that bit that you can, you not just stuck in the warehouse with no light and no nothing and at the end of the day you walk out 'well, I miss the whole day' ... You have to be able to step outside, see a part of the day, and get the bit of fresh air" |
| Bar/coffee house | "Actor 7 and I pop down to ermm the golf and country club down the road yesterday and sat there like an hour and a half. We purely on the business"  |

Even though the leader and followers in those small hi-tech and low-tech firms experienced positive emotions with the physical places, the type of places that are meaningful to them are slightly different. Tables above show that conference is a meaningful place for leader and followers in small hi-tech firms but not in low-tech firms. Low-tech leader and followers' positive emotions are more enacted with informal places such as coffee shop.



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## Discussion

Overall, the finding shows that the physical environment is meaningful for leaders and followers in small hi-tech firm and also low-tech firm. The physical environment is meaningful for leader and followers because various emotions are experienced when they talk about their physical environment that created aesthetics of the workplace in the organisation. This finding fills a gap in leadership theories by highlighting the importance of aesthetics in workplace. Componential theory only discusses the importance of work environment which regard motivation as aesthetic elements of work place (Amabile, Conti et al. 1996) but did not discuss the association between emotions and physical environment. Transformational Leadership Theory and Emotional Intelligent Theory of Leadership only discuss the emotional part but did not associate those emotions with physical places. Other theories such as Leadership Skill Models, Propulsion Model and Basadur Creative Leadership did not discuss about the association of emotions and physical environments. Therefore, this study extends the contribution of environment factors in understanding aesthetic elements of work place for creativity leadership theory.

It is found that positive emotions such as joy and love are experienced in small hi-tech and low-tech firms. Other study found that positive emotions enhance creativity as happy individuals' shows higher cognitive flexibility (Michl, Welp et al. 2009). This findings are consistent with other study that regards emotions emerge in entrepreneurial firm (Goss 2007). However, Goss (ibid) finding only explains entrepreneurial behaviour and not explains the aesthetic experience of the leader and followers in those entrepreneurial firms. Aesthetic experience is about beautiful and elegant experience that are enacted with contentious matter (Darity 2008). Previous study have associated aesthetic experience with feeling of pleasure (Sandelands and Buckner 1990). Emotions such as joy, surprise, and love are the emotions that contribute to feeling of pleasure (Shaver, Schwartz et al. 1987). Therefore, this study argues that Physical environments are aesthetic because it create pleasant environment for leader and followers. Physical environments are the places that the interactions happen. The interaction happened in the business premises that shaped by their architecture. Architecture is the art and science of building human environments where the interaction and social activity take place (Darity 2008). The architecture, create a space for interaction. Inside building architecture is office layout which is an important place for leader and followers because the main activities of their work happen at this place. Office landscape that is outside the business premises is another place for interaction. Other place for interaction outside the business premises are bar and coffeehouse. Therefore, this study makes an original



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contribution to understanding factors that influence leadership creativity in small technology firm especially in small hi-tech firms.

Furthermore recurrent of studies on creative leadership in small hi-tech firms have used quantitative research method to understand the creative leadership phenomenon. Quantitative method is not suitable for this study because the method only focus on testing the theory which is frame by the researcher. Furthermore, quantitative method only focuses on the small part of the phenomenon which cannot explain the phenomenon within the holistic perspective (Gruber and Wallace 1999). Holistic perspective can be achieved by using interpretive symbolic interactionism where the interaction between self and society can be revealed (Mead and Morris 1992). This study makes an original contribution because it uses qualitative approach that employed interpretive symbolic interactionism as theoretical background and abductive case study as strategy to achieve the main objective. Hence, the explanation of the phenomenon are developed from the actors' stories in the field and not created by the researcher through theory testing.

## Conclusion

This study is a departure from the conventional research on entrepreneurship, leadership and creativity. It offers new insights both to the academics and the practitioners to consider the subjective side of individual as part of creative leadership phenomenon. The findings indicate that physical environment is an important element in creative leadership phenomenon and it promotes the creative action for innovation in small hi-tech firms. Physical environments such as business premises, office layout, conference and coffee house are associated with positive or pleasant emotions such as love and joy. Several implications emerge from this study. Firstly for management of small hi-tech firms, this study highlights the importance for creating an aesthetic workplace to increase innovation activities. Furthermore, leader and followers should be involved actively in conferences because conferences create opportunities not only for idea generation but also as incubation places for innovation process. Implication for policy makers from this research are that government agencies also should build the business premises and building that are tailored to the aesthetic need of the leader and followers in small hi-tech firms. Furthermore, future research can generalise this finding through quantitative investigation. Research should investigate the relationship between the type of technology with the places that are meaningful to the leader and followers in technology firms.



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## **SOCIAL ENVIRONMENT OF CREATIVE LEADERSHIP IN HIGH AND LOW SMALL TECHNOLOGY FIRMS**

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**Objectives:** (1) To explore how the entrepreneurial and creative leadership in small technology firms is constructed. (2) To examine the importance of entrepreneur and creative values of leadership in information technology sector.

### **Theoretical Background/Previous Practice:**

Based on the Basadur creative leadership theory, this study attempts to explore how entrepreneur and creative leadership as an inter-subjective phenomenon is enacted within the social phenomenon in the organization. By examining on the way the leaders interact with the followers and the different forms of conversations and discourses that being used by the leaders and the followers, it is expected that the reality behind entrepreneur and creative leadership could be uncovered.

### **Approach/Methods:**

This is a qualitative study that adopts a symbolic interactionism paradigm. Specifically, this study employs a narrative inquiry method to capture the language and meaning in order to understand how the entrepreneur and creative leadership is constructed in small information technology firms in UK. Five in-depth interviews have been conducted with the leaders in two high technology firms and seven in low technology firms in southern UK. The data has been analysed and compared between the high and low technology firms using qualitative procedures manually.

**Results/Insights:** This study found that creative leadership in small high-tech firms were of companionship type and those in low- tech firms were institutional type. The findings indicate that there are different types of social environmental factors that affect the

construction of entrepreneur and creative leadership. Different types of technological means of communication are perceived to be closely associated to social environmental factors that require the leaders to be highly adaptable to the situation.

**Implications:** This study could signify and endorse previous research that social context plays an important role to define the circumstances in which the leadership is being construed and enacted. It also demonstrates that entrepreneur and creative values of leadership becomes the emergence and imperative characteristics that underline the leadership roles particularly in information technology sector.

**Keywords:** Creative leadership, entrepreneur leadership, social environmental factors, symbolic interactionism, qualitative.

## **Introduction**

The objective of this paper is to reveal part of the findings on understanding creative leadership phenomenon in small hi-tech firms.' The roles of small hi-tech firms in economic growth and innovation is widely recognised (Mohd Yunos 2002). Even though the roles of these firms are important, but there seems to be some difficulties experienced by these firms to grow and survive because of the nature of the firms as entrepreneurial entity (Soetanto 2006). They are also dealing with immature technology innovation that needs extra effort (Zhao 2006). Therefore, the leaders in these firms need to be creative and innovative (Basadur 2004). The actions of the leader and followers to think and act creatively and innovatively are developed through their daily interactions. These interactions occurred through the meaning that they create base on their personal thinking and the information that they exchanged in their social life (Mead and Morris 1992). Leader and followers thinking approach are developed through experiences that are socially constructed. Even though the actions are socially constructed, leaders' and followers' thinking and action change overtime because of the development of new knowledge that transferred through the symbolic interaction between individual leaders and followers within the society in their daily life (Hewitt 2007). According to him, the meaning making process through interaction would lead to the creation of social environment of that particular organisation. Furthermore, the roles of small technology firm are increasingly important due to the development of knowledge based economy. Therefore, it is important to know the social environments of these firms. Hence, it is necessary to examine the importance of entrepreneur and creative values of leadership in small technology firms especially in information technology sector. To achieve this objective, this study uses abductive research strategy with case study method within interpretive symbolic interactionism theoretical background.

Moreover, understanding creative leadership phenomenon in small hi-tech firms using qualitative research method has been largely ignored in the previous entrepreneurship research (Berglund 2007). Recurrent of previous studies on small hi-tech firm focus only on understanding the antecedents, such as roles and motivation that influence the performance of creative leadership process, and less on exploring the perspective of the leader and followers on their own meaning that given to the social environments. This study shows that the leaders' and followers' perspective, their meaning making process of the social environment is crucial to understand creative leadership phenomenon in small technology firms.

## **Literature review**

The literatures that relate to creative leadership theories are reviewed to understand the various perspectives that explain the phenomenon. It is found that recurrent of creative leadership theories were derived from creativity theories. Therefore, there is a huge opportunities in exploring creative leadership phenomenon since the literature demonstrate that creative leadership theories has so far being focusing more on qualities and componential theories of creativity. Hence, the literatures that relates to leadership and creativity are also reviewed as a background understanding to the researcher for interpretation process (Blaikie 2010).

It is also found that there were a small number of creative leadership researches which could explain creative leadership in small hi-tech firms. Literatures also demonstrate that little research has been carried out regarding creative leadership associated with social environment in small technology firms. Previous theories only illuminate the leaders and followers' qualities and cognitive that focuses on the trait of creative leader (DiLiello and Houghton 2008) and the approach that leaders utilised in their thinking process (Sternberg, Kaufman et al. 2004). Creative problem solving also is one of important skills for creative leader (Puccio, Murdock et al. 2007). It includes emotional intelligence as traits (Goleman 1998) which explains creative leadership implicitly. Another stream of literatures on creative leadership focuses on components that can increase creative performance of leaders and followers. For instance, Skills Model of Leadership argues that leaders' creativity are influence by component of individual attributes, competencies, experience and environments (Mumford, Zaccaro et al. 2000). Transformational leadership (Bass 1990) and Basadur Creative Leadership (Basadur 2004) on the other hand, elaborate on leaders stimulation to promote creativity. Those researchers focus more on antecedents or mechanisms that influence creative leadership performance and little consideration were given on the social environment of small technology firms. Hence, there is a gap to explore further the social environment and its effect on the development of creative leadership.

Creativity theories as a background of creative leadership underline the important aspects of creative leadership. Creativity theories can be characterized into four main categories. First category is derived from cognitive and quality theories. These cognitive views believe that creativity is associated with intelligent and gifted skills. One of the theories is Threshold Theory of Creativity (Sternberg and Lubart 1999). Researchers in this category also believe that creative individual have certain qualities such as openness, proactive and risk taking. Second category comes from componential theory. Componential theory focuses on the set of components that can increase creative performance of the leaders and followers (Amabile 1983). A third category which is originated from system theory depicted that creativity is fostered from the social system. This view focuses on the creation of creativity. This theory believes that creativity exist because of the interaction between the individual (personal quality), domain (organisation culture) and field (society) from a set of rules and practices system (Csikszentmihalyi 1988). The final category is emphasising on co-evolving system. Co-evolving system believes that individual creativity is developed from the individual cognitive and traits which is affected by the societies and it evolves over time (Gruber and Wallace 1999). Out of these four categories, this study position itself in line with the stream

of co-evolving system theory. This framework is believed to be able to capture the stories behind the leaders and followers interactions and their associated social environment.

Nonetheless, social environment in small technology firm is shaped by the interaction between leaders and followers in particular situation (Hewitt 2007). It is believed that each individual have their own perspective developed from previous experiences (Ladkin 2010). Those experiences provide meaning for every action within the group. These meanings then triggered the development of social interactions between individuals.

## **Methodology**

This is a qualitative study that adopts interpretive paradigm. Specifically this study uses symbolic interactionism methodology in order to achieve the objectives. Symbolic interactionism believes that reality is multiple and it being labelled according to individual experience (Denzin 1992). The knowledge is generated from meaning making between individual self of leaders and followers and the society in particular environment (Charon 2010). Accordingly, the conduct of this research is based on epistemology of constructionism and idealist ontology (Blaikie 2010). According to him, daily knowledge is the outcome of people having to make sense of their encounters with the physical world and other people, and the role of researcher is to reinterpret the knowledge into technical language.

This study uses abductive strategy that captures and transforms knowledge from lay language to technical language. Abductive strategy captures the meaning making process that can reveal the hidden meaning through interpretation (Blaikie 2010). This strategy has been criticised for its reliability as the knowledge is constructed by the researcher and it is considered as bias (Merriam 1988). However, Flick (2009) argues that this approach which is interpretive in nature cannot be generalised for statistical generalisation. The researcher is the person that understands the phenomenon since he/she is the one that interact with the participants in the real world. The researcher is considered as knowledgeable about the phenomenon and his/her suggestions would reflect the truth of the phenomenon (Saunders, Lewis et al. 2007).

To achieve the objectives, this study employs case study technique to increase the reliability and validity (Merriam 1988). This technique is used as evidence to the stories narrated by the leaders and followers (Yin 2009). Hence, Visconti (2010) recommends combining the case study with ethnography approach to increase the reliability of the study. He mentions that ethnography approach is the best approach to understand creative leadership phenomenon because the researcher involve directly in the field through participant observation. Unfortunately, this study was unable to utilise those techniques because the there was no permission granted to be with the leaders and followers for longer timeframe. Beside interview, other data sources such as direct observation, photograph and documents are collected to support the stories. The researcher only observes the environment during informal visit to the firms or during the interview session (Yin 2009).

Interview is the main data sources for this study. This study used in-depth interview with narrative inquiry approach. The narrative inquiry is utilised to capture the language and meaning in order to understand how the entrepreneur and creative leadership is constructed. According to Riessman (2008), there are five narrative inquiry features. First, themes emerge from the interview transcript. Second, interviewer is very active representative in the conversations. Third, the transcripts open up issues of emotions in the interviews and how to present them. Fourth, the interview transcript creates experience for audience and lastly, the transcripts reveal questions about determining the boundaries of a narrative. The researcher asked the questions that based on the interview protocol as a guideline for the interview session (Legard, Keegan et al. 2003). This interview protocol is use for sensitising concept and not for testing the framework (Blaikie 2010). Therefore, the meanings behind the interview transcripts are captured and not the direct answers (Ritchie and Spencer 1994).

The interview process is very important to be able to capture the lay language and transforms it into technical language. Hence, the entire interviews were tape recorded and other information that was unrecorded in the tape recording was recorded in the field note immediately after the interview. Prior to the interview, the researcher investigated all the related documents such as blog, facebook and website to understand the respondents' background and personalities. For instance, the researcher has contacted one respondent through telephone and came to know that the respondent work from home. During the conversation, the voices of his children can be heard clearly from the phone. The researcher believes that the respondent is fatherly type and loves his children. The researcher then used this intuition to tackle the respondent to make him feel happy and ease during the interview. This is important in order for him to talk openly with full cooperation.

The interview began with giving the consent form to the respondent. Then, the researcher gave a short briefing about the research and asked permission to fill in the questionnaire. The blank questionnaires were given to the respondent while the researcher read it. Then the researcher ticked the answer once the respondent gave the answers. Sometime, the respondent asked for further explanation on some ambiguous questions. Then the in-depth interview took place. The researcher had to be alert with the respondent's answers, retrieve the background knowledge and link it with the respondent's stories to develop in-depth questions. Sometime the researcher inquired the same issues in different way to increase validity and to compare and contrast the answer with the responds from other respondents to understand the whole stories. The interview process was very time consuming and stressful. Therefore, the researcher managed to conduct the interview up to three people in a day to get the quality result. The thinking process was not ended after the interview, since more information was provided during informal conversation after the interview session. That information was recorded immediately after the conversation in the field note. It took seven month to complete the data collections because of the long interviewing process and interviewing elites.

Beside the interviews, the researcher also observed the relationship between the leaders and followers through direct observation and document survey. As mentioned above, other related sources such website, facebook, and blog were also being referred to in order to understand the stories that being told by the leaders and followers. The interviews were also

conducted with other informants for example the industry expert, successful entrepreneur, and consultant in the industry. Four interviews were from hi-tech sector and three from low-tech sector. Questionnaires were also distributed to the leaders and followers, to provide background knowledge to the researcher (Gruber and Wallace 1999).

Using Basadur Creative Leadership Theory, the researcher further investigates the element of creative and innovative thinking and actions amongst the leaders. Thus, those data was collected from two small hi-tech and two small low-tech firms in information technology sector. Small hi-tech and low-tech firms were compared to get the robust research data (Blaikie 2010). This is in line with what has been suggested by Yin (2009) that comparative approach is better in order to comprehend the phenomenon. Hi-tech firms are the firm that involve in telecommunication (goods and services including manufacturing) and information technology (goods, services including manufacturing). However, those firms that involve in the information content (film production, information services and media) are labelled as low-tech firms (OECD 2009). Both hi-tech and low-tech were chosen within the category of small and young firms. The chosen firms for this study were independent and less than 49 employees (OECD 2005). Those firms were newly established between one to ten years of start-up (Calvo and Wellisz 1980). The first hi-tech firm was a creative agency that involve in website design. This firm was categories as hi-tech firm because they use most current software in their design. The second hi-tech firm involve in software development for bioinformatics industry that uses open source coding. The first low-tech firm was the public relation (PR) agency. They use content of information to proceed with their work. The second low-tech firm was a finishing publishing firm. This firm involve in printing and publishing work using technology appliances in their job processes.

## **Finding**

It is emerged from leaders and followers stories that social environment of creative leadership in small technology firms were constructed through trust, support, respect, recognition and power relation. Citations below depicted the example of accounts that leaders and followers in both firms told.

## **Trust**

“Here is obviously much, much tighter closer knit and much as that easier to manage...manage team here but you know it wouldn't be err we have to allow a very high degree of trying to think what the world would be but we...people that we employ are self motivated, highly educated and really have to take responsibility for delivering the work that we require of them within the time schedule”

(Leader HTF1)

“I meet Actor 15 about 20 years ago....And I think because we were being close friends, we understand each other well, before anything happen. So for me, he is a perfect person to trust when I am not here. We both think very similar, although you might look and see us work completely different way to get the same result, but I never worry Actor 15 doing it a completely different way because I know he will end up with the same result”

(Leader LTF1)

These accounts demonstrated that the leaders in both hi-tech and low-tech firm trust their teams. They gave freedom to their team to perform their works. The leaders trust that followers can do their jobs and can achieve their common goals.

## **Support**

“If someone struggling with something, then one of the guys or the team will come in and talk it over and then someone might say something and that will give you inspiration. So it’s, you just have to, you have these tools, you know, you can’t turn creativity on and off, but you can facilitate it a bit easier through how you are going about it”

(Leader HTF1)

“I can but I don’t think the team mature enough to be able to work through complex problem with their computer. So if they seen they inbox, they really distracted, so they see an email come through for client expecting and they not listening, where you have to take people out of their working environment and away where there is no distraction, which is why this room is good because there isn’t any distraction. Especially if you sit with them here cause I only can see a blank wall, no computer, no phones”

(Leader LTF1)

These accounts exhibited that the leaders in both hi-tech and low-tech firm, support each other. The leaders shared and solved the team problems together. They know when to chip in when the followers need their help.

## **Respect**

“I try to be as calm as possible when wearing it (refer to the role of project leader) but exterior pressures like for instance the client, deadlines, budgets, you know...the bigger the budget the more respect the project and there is a lot more pressure on that person because I will continuously be on their backs until it is done. I mean not necessarily we don't try and treat every job the same when it come in, but external implications really do sort of differ so if I have someone shouting at me then what happen is I will calm him down and I will shout at them and make sure it is done”

(Leader HTF1)

“I think we are lucky because we are very creative bunches, only five of us as you can see so....everyone has their own little bit creativity, they like to being put whatever it is leaders, you know senior and the stuff or junior and the stuff. Everyone is in title to own input. We have quite a lot of creative sort of brainstorming section around the table. Where there are lot of inputs. So having Actor 7 and Actor 8, they are very creative themselves, really”

(Leader LTF1)

These accounts demonstrated that the leaders in both hi-tech and low-tech firm respect each other. They believe that each member has their own opinion and they have to control their own emotions when deal with stressful situation.

## **Recognition**

“I love to have won in ten years time; I would love to have won some design awards. We have won some business awards, but I love to win an award for something we design”

(Leader HTF1)

“What sell us is our reputation and Actor 13 contact because the latest customer we got is actually one of our suppliers of paper and boxes and general supplier recommended us to this customer that ‘they really good people, they pay on time, they nice guys and so’ this customer come to Actor 13 and now we got a new customer of the back of it and I prefer that because than you get thing off, not worry about not paying because they come through recommendation”

(Leader LTF2)

These accounts showed that the leaders in both hi-tech and low-tech firm recognised each other capabilities and being recognised amongst the society.

## Power

“Actor 18, he is a good boss. He understands my need and that why I think his good and he...he fun as well, that why I like him. Actor 19, his is ok. The good thing about him, he is very intelligent. He also helpful explain thing and ya ..Actor 20...very friendly, he is good...he communicative, helpful as well as each one of them is helpful, they are good people”

(Follower HTF2)

“Well the relationship is probably very good because as I said that sure there an equal to them there not like be hierarchy this one thing. So yah, it's not suppressing like he made this company...well as I working that customer service sector for example, I work in the hotel, all the leader, he pretend to be really smart you know, we all like a bunch of fillies which that was annoying”

(Follower HTF2)

“I think our old office, even though it was beautiful, it did not have a separate room and I think when we all need time to sit and have some place space, we can all work in here now and is separate and because we all on the same floor and we are a small team and I am there as well and I am not stuck in the office away. I think that really help because we can talk about ideas as constant flow of ideas and energy so this layout is much better than our other lay out because we had the upstairs and the down stairs because we in one floor I think work much better”

(Leader LTF1)

“If they need to make it like one week or one week and half then I can put some night shift or maybe get some more people, sometimes doesn't always work out just to have a 100 people because you cannot watch 100 people here. You can't... things can go wrong and I suggest being sensible to a job like this. If you want it to be correct, 10 to 20 people just the nice amount of people and keep an eye on it and you can get a lot done in a day and if we need to run through into the night time, then we run through the night time”

(Leader LTF2)

These accounts depicted that power relation emerged in the social environment of the hi-tech and low-tech firms. However, the relationship is different. Leaders and followers power relation in hi-tech firm were more towards knowledge power in which they were helping each other to solve any problem aroused. On the other hand, leaders and followers power relation

in small low-tech firm were observed to lean towards position power. The leaders in low-tech firm were more interested to control their followers while the leaders in hi-tech firms tend to have less control over their followers.

## **Discussion**

Generally, the findings depicted that trust, support, respect, recognition and power relation are the important elements in social environment of small technology firm in information technology sector. Leaders and followers in small hi-tech and low-tech firm trust, support, respect and recognise each other. However, the sense of social environment is different when come to the power relation between leaders and followers in those small hi-tech and low-tech firms. These differences can be explained using family institution metaphor. Family institution theory explains that social environment can be categorised into two which is companion type and institutional type (Burgess, Locke et al. 1963). According to them, the most extreme conceptual formulation of the institutional family would be one in which its unity would be determined entirely by the traditional rules and regulations, specified duties and obligations, and other social pressures impinging on family members while companionship family would focus on the unity which develops out of mutual affection and intimate association of family members.

There are four characteristics that explain institutional type. First, institutional or patriarchal family is authoritarian and autocratic, with power vested in the head of the family and with the subordination of his wife and family members to his authority. The power of the leader in small low-tech firms is vested in the head of their leaders where they keep on controlling their followers. Second, marriage is arranged by the parents with emphasis on prudence, and on economic and social status. It is observed that followers in small low-tech firms were selected based on the degree of financial status in the organisation and capabilities of the followers to perform their works. Once the followers were selected, they have to follow certain rules and guidelines that were written and unwritten in the organisations. The leaders trusted, respected and recognised their followers based on the abilities of the followers to conform to the guidelines. Third, family members have to comply with duties and following the tradition would become their major expectations. Everybody including new members have to comply with the guidelines that had been formulated based on leaders' perspectives. Leader in one of small low-tech has created 'LTF1 bible' as a guideline book and everybody in the firm are expected to follow the guidelines. Lastly the primary historic functions of the family-economic, educational, recreational, health, protective and religious were found in their fullest development. The leaders in small hi-tech firm were more concerned about financial capabilities and they include elements of recreational and health where one of the routine is to do some exercise together.

There are four characteristics that explain companionship type. Firstly, companionship or democratic family is based on equality of family members, with consensus in making decisions and with increasing participant of family members. Power relation between leaders and followers in small hi-tech firm is based on knowledge power. They share their knowledge in decision making and the increasing of participation is based on expertise. Second, selection of marriage partner is in the hands of young people and choice is on the

basis of affection and personality adjustment to each other. Followers in the small hi-tech firms were selected based on the self motivation, intelligent in solving problems and love to do their particular jobs. There were no particular guidelines to guide their behaviours. They knew what to do as they have the same affection on their work. Third, objectives of this family were to achieve happiness and personal growth of individuals. They interacted with each other because they love their works and they kept on seeking for a new knowledge to be at par with industry level. Lastly, the historic functions have been greatly modified. This small hi-tech firm were more concern toward technology innovation rather than society.

Therefore, the finding can be interpreted as social environment in small hi-tech firm is more of companionship type and on the other hand, social environment in low-tech firm is more of institutional type. This is in line with previous research that relates creative leadership with companionship and institutional type of social relationship. Componential theory only discusses the important of work environment which regard task and social skills as elements of work place (Amabile, Conti et al. 1996), however they did not explain types of social environment whether it is companionship or institutional. Transformational Leadership and Emotional Intelligent Theory discuss the relationship that the leaders should perform but have excluded the explanation of the social environment in details. Other theories such as Leadership Skill Models, Propulsion Model and Basadur Creative Leadership have not elaborately explain the social environment, but only produce the proposition on type of relationship between leaders and followers. Therefore, this study makes an original contribution on understanding creative leadership in small technology firm within information technology sector.

Furthermore, this study signifies and endorses previous research on entrepreneurship and leadership field (Vecchio 2003). It exhibits that the social context plays an important role to define the circumstances in which the leadership is being constructed and enacted.

Recurrent of studies on creative leadership in small hi-tech firms used quantitative method to understand the creative leadership phenomenon. This study makes an original contribution in terms of methodology as it uses qualitative approach that employed interpretive symbolic interactionism and abductive case study to achieve the main objectives. Hence, the explanation of the phenomenon are developed from the actors' stories in the field and not created by the researcher through theory testing.

## **Conclusion**

This study is a departure from the conventional research on entrepreneurship, leadership and creativity. It offers new insight both to the academics and the practitioners to consider the subjective side of individuals as part of creative leadership. The findings explain that there are two types of social environment in small technology firms within information technology sector. The sense of companionship is more emerges in small hi-tech firms whereas sense of institutional is more emerged in small low-tech firms. This finding demonstrates that entrepreneur and creative values of leadership becomes the emergence and imperative characteristic that underline the leadership roles particularly in information technology sector.

Therefore, future leaders and followers in small technology firm should aware and understand the social environments so they can make decision that can promote innovation in those technology firms. Furthermore, future research could also be embarked through quantitative investigation.

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# **ENTREPRENEURIAL SKILLS NEEDED TO HELP GENERATE SOLAR ENERGY IN MALAYSIA**

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## **ABSTRACT:**

As the world population grows and so is the demand for energy. Countries will be facing energy consumption problem due to population growth. In recent years, the issue of energy comes from the phenomenon of "global energy crisis." It has since grown in importance and demands serious development. The search for feasible clean technology to produce electricity is gaining momentum.

Solar energy is an example of alternative energy to green house gas producing fossil fuel. However, the cost of generating solar energy is high. conversely, it is considered advantageous in reducing environment pollution. These advantages are considered in this paper. Despite issue's clouding solar energy, it has economic justification. For example, using solar cells in remote areas can reach competitive market price in few years. Regarding technologies and extensiveness of solar-energy consumption in the world, it seems that in some fields such as heating up buildings, producing hot water, cooking, dryers and water desalination system this energy has the vast potential.

One of the most important barriers in solar-energy utilization is that solar industry requires relatively high asset and capital. For example, photovoltaic cells that produce electricity, CSP systems and solar concentrating towers to generate electricity are still high in cost. Despite this, many European countries are seriously developing clean energy based on solar energy. Malaysia is spearheading the research and development in solar energy and working to develop entrepreneurs in this industry.

This paper highlights some salient entrepreneurial opportunities in developing solar energy in Malaysia.

**KEYWORD:** Entrepreneurial Skills, Sustainable Development, Solar Energy, Environmental Issue

## **1. INTRODUCTION:**

One of the most fundamental and basic steps of human during the history is trying for inventing new methods for utilizing various kinds of energies.

Accessing to various kinds of fresh emerging energy resources have significant importance for economic development of developing countries; modern researches has shown that there is a direct relation between the development levels of a country and energy consumption rate

of that country. Noticing limited resources of fossil energies and growing rate of energy consumption in the current world, it is not wise to rely on the present energy sources.

Regarding huge dependence of industrial societies to energy sources and especially fossil fuels and as a result high speed of these energy sources's consumption, current generation has this duty to face upon those sets of energy sources, which have more life and power and improve human science for better utilization of these kinds of energies. Sun and wind can be remarked as two important resources of energy because, moreover, then these two sources are available almost everywhere in the world, for utilizing these energy resource's high-tech and expensive advanced technologies are not required.

The contemporary PV solar industry came to consist of three separate sectors:

-The first is wafer, cell and module production.

-The second is the installation of such solar cells.

-The third is the manufacture of polysilicon. The primary raw material used to manufacture PV cells.

The development of solar energy on a commercial basis turned out to be a lengthy process whose progress was primarily shaped by the price and cost of alternative conventional energy sources.

Solar was especially vulnerable to the price of competitor sources of energy as it emerged as the most expensive renewable energy. Innovation was driven by visionary entrepreneurs, all of whom faced the problem that PV solar was a highly capital-intensive and technologically-complex product.

**Energy states the talent and ability of performing work, energy has different forms, which are:** Solar energy, mechanical energy, geothermal energy, chemical, electrical and atomic energy which all varied forms of energy can convert into other forms. Generally, and economically that is the principal subject of how to use different kinds of energy. Energy in the world can be classified into four main groups, which are as below:

**A:** pollutant and non-recyclable energies

**B:** pollutant and recyclable energies

**C:** non pollutant and non-recyclable energies

**D:** non pollutant and non-recyclable energies and unlimited

### **Importance of noticing green energies:**

Today, new energies are growing and penetrating fast despite remaining unknown, and it seems neglecting them is irrecoverable. Solar, wind, aquatic, biomass, bio gas, and geothermal energy are the most important green energy resources. Occurrence of three factors in 1995 caused to create a turning point in producing recyclable energies and especially wind energy.

1. Climate changes because of accumulation of greenhouse gases in atmosphere.

2. Increasing demand for electricity energy all over the world

3. Opening a promising viewpoint about recyclable energies, which is stated clearly and announced by scholars.

It has to be noticed that, in fact, producing each Kilowatt-hour electricity from recyclable energies instead of coal prevent the spread of one kg of CO<sub>2</sub>. Therefore, for example, for each 1 percent common energy that substituted by wind energy reduces almost 13% of CO<sub>2</sub> gas spread. Furthermore, reduction of sulfur and nitrous oxide (acid rain factors) is one of the other environmental advantages of utilizing wind energy. Have processes to recycle all panels for 100%? And no coal power plant can beat that.

### **Some important factors about solar energy:**

1. Generating Solar Energy Is Only Possible In Countries with a Lot of Sunshine:

The fact is, the energy of the sun is the most evenly spread source of energy in the world. In any part of the world where there is light, solar panels will work. The world's biggest market for solar energy is Germany that a country not particularly blessed with long days full of sunshine, but a country with a smart government, nonetheless. In the summer, more than 10% of the household electricity in the south of Germany is generated by solar panels.

## **2. Solar Panels Are Only Attractive In Niche Markets:**

Solar energy is an attractive product in any place where people need electricity, which nowadays is anywhere in the civilized world - globally. That is a much larger market than just large-scale solar plants in desert areas, which are very competitive markets, because they need creation of new grids, are competing with wholesale prices for electricity and are crowded with many other power-generating enterprises.

When you concentrate on solar panels for household or entrepreneurial use that can be mounted on a rooftop, you can compete against the local consumer and corporate rates for electricity. You can compare this with the market for compact fluorescent lamps, where the consumer at the end of the day saves money by investing a small sum of money. The ROI is made at the end-consumer level: the height of the electricity bill.

## **3. Solar Energy Needs a Lot of Public Financial Support and Could Never Become Competitive:**

In the past three years, the prices of solar panels have gone down by half, as a result of the introduction of large-scale production methods. Marketing research shows that innovative consumers want solar energy now. In 5 years, your average consumer worldwide will want his solar panels, just like he wants his smart-phone and laptop. Your consumer will want them, because the solar energy from those panels will be cheaper and greener than the electricity from the grid.

And other countries worldwide will follow, for the simple reason that the global market is getting greater and greater and solar systems are getting cheaper and cheaper. That is one thing for sure.

The other side is that nobody knows what the costs for traditional energy will be in 10 years. Today, new nuclear plants won't be even build without substantial government funding, because their future is so insecure.

## **4. The Efficiency of Solar Panels Is Still Too Low:**

True, it could be better. Like cars getting more economical every year, solar panels are getting more efficient every year. Are the current panels not valid enough? No, the technology is mature and the panels are excellent. What is at stake now, is not the efficiency of panels, but the price per generated kilowatt-hour? It is no longer about the type of motor in a car, but about how much fuel the motor consumes per mile. There will still be new types of solar panels developed, with better efficiency, but the real success of solar energy in the future will lie in large-scale production matters and growth of the global market. A low purchasing price for a solar panel will be the determining factor for low-cost generation of solar energy for the consumer.

## **5. Solar Panels Have a High Carbon Footprint and Are Not Sustainable:**

Solar panels are usually made from silicon. Silicon is found in sand, one of the most widespread natural elements on earth. The ovens used to transform the sand into silicon use a lot of energy - that is true. However, the payback time for the energy used to produce a solar

panel is only 1 to 2 years. This means that at this time, the panel generates the total amount of energy that has been used for its complete production - thanks to the free energy of the sun.

All power generated after the payback time is pure green profit, while solar panels can last 25 to 40 years! Other sources of energy have much longer payback times. Specifically, nuclear power plants have extremely long payback times, so long that it is questionable whether all the power that was generated during their lifetime is enough to pay for the energy used to build and disassemble them.

#### **6. Solar Panels Are Unreliable, Because On Cloudy Days and During the Night, They Do Not Work:**

Right now, the market for wind energy is (still) bigger than the one for solar energy, although the sun is a more reliable source of energy than the wind. However, solar energy will soon surpass wind energy, firstly, because solar panels can be used anywhere and secondly because they can be implemented in a modular way. This means that is very easy to expand the solar-energy system throughout months or years. The combination of solar and wind energy is a nice option, but the future lies in the combination of solar energy with energy storage on a local and on a central level, especially now that the market for transport of electricity will grow further.

#### **7. The Big Energy Corporations Do Not Believe in Solar Energy and Thus It cannot Be Good:**

Solar energy is a sport for fast and flexible entrepreneurs, with a preference for innovation and sustainability. The market is volatile and ever changing, like the wind in the sails of an elegant and quick sailing ship. An entrepreneur in solar energy has to be like the shipper of such a sailing ship, sometimes tacking in a headwind, immediately easy-going down the wind, but never windless.

#### **8. Solar Energy Has No Role in the Global Generation of Energy:**

At this moment, solar energy contributes to only 1% of the worldwide need for energy. However, this contribution could be growing surprisingly fast. Germany is the guiding country, where it is expected that in 5 years, 10% of all energy used will come from solar panels.

And what Germany can do, other countries can do too. For emerging economies, it has already become useless to build large coal or nuclear power plants when solar panels are getting so cheap so quickly. You can compare this with the introduction of the mobile phone in India and other countries that didn't even have a mature land line grid.

Those grids were never further developed and will never be, because they were made redundant by the introduction of the mobile technology. The same thing could happen with the introduction of solar energy on the markets of the emerging countries. The building of new, large power plants will become redundant, because individual, decentralized power generation is cheaper, more efficient and much more flexible. The photovoltaic world market has grown in 2010 with more than 100% compared to 2009, and it already started to grow in this way in 2009. If this logarithmic growth percentage of 100% continues, then solar energy will cover the entire global energy needs in less than 10 years!

#### **9. Solar Panels Are Unsightly and Take up A Lot of Space:**

That really depends on taste. Of course, there will always be people who believe a smoking chimney of a coal power plant is the apex of industrial technology and esthetics. Other people don't mind showing that they are generating their own electricity and therefore, have solar

panels on their roofs. Anyway, there will always be enough space on earth for all solar panels ever needed.

Mind you, only a relatively small desert area of 200 by 250 kilometers (125 by 155 miles) filled with the solar panel technology of today would be needed to fulfill the total need for electricity of Europe. However, luckily, we don't have to enter those beautiful desert landscapes, because there is enough roof area available in Europe to realize this supply. And on a lot of roofs, the panels won't even be visible. Furthermore, more attractive panels will be introduced on the market as production methods and innovations proceed. Compare it with the cars of today, which are so beautiful, compared to the vintage cars of the '60's and 70s ... or not?

#### **10. Solar Energy Systems Are Unreliable and Require Maintenance:**

Solar energy systems do not have been moving parts and therefore, requires no or hardly any maintenance. The most fragile part in a grid-connected solar-energy system is the inverter, which converts the DC from the solar panels into AC equal to the voltage of the grid.

An inverter costs about 10% of your total energy system costs. It consists of some pieces of micro-electronics, can last about 10 years, and can easily be replaced for a then probably even low price. Only in dry and dusty climates, it can become necessary to clean the panels regularly with a little water. If you live in an environment where it rains often, you don't even need to do that.

#### **Comparing energy consumption in developed countries with developing countries:**

New studies have shown that there is a direct proportion between the development levels of a country and the rate of energy consumption of that country; based on estimations of "International Institute of Analyzing Applied Systems" which its headquarter is in Luxemburg, Austria, in 1975 per-capita energy consumption of developed countries was 17 times more than developing countries.

Each country should determine its solution for energy issue based on its own economic development frame because energy is one of the main elements of development strategy of each country.

#### **Technologies in utilization of solar energy:**

Solar energy can be accessed through one of the below methods:

1. Chemical solar: with solar radiation on earth surface and accomplishing of photosynthesis action in plants and production of food materials in earth, it becomes the survival factor of human life and other lives.
2. Solar electricity: it is produced with the help of convertors of solar energy into electricity.
3. Thermo-solar: it is produced through various kinds of collectors and producing thermal energy for supplying consumer hot water, central heating systems, air conditioning of buildings, producing steam and starting power production machines and other thermal operations. This method compared to other two methods has more extensive applications.

#### **Applications of Solar Energy:**

In current century, solar energy utilized by various systems and for different purposes that most important ones are as below:

1. Doing photosynthesis of plants and also process of decomposition of animal fertilizer and using its gas
2. Chemical changes due to sunlight such as photonic electrolysis, photovoltaic cells electrochemical, and hydrogen production equipment.
3. Direct conversion of solar energy into electric energy

4. Warm water producing systems, warming and cooling of buildings, producing fresh water, transport and pumping systems, greenhouses, dryers, solar stoves, cooling systems, power towers, solar dryers, and solar power plants, and solar pools

**Climate factors effect on solar systems:**

Sophisticated designers of solar power will evaluate climate characteristics to improve quality efficiency of the system. How climate factors effect on the solar system in each region includes some cases as below:

1. Sunlight: climate of each region will determine that each year which amount of sunlight can be expected.
2. Snowfall: sometimes some regions because of covering with snow or being reserved from snowfall can be a more appropriate location for installing solar system facilities or in roof's locations beside warmer, exits or chimneys, etc. can be a more appropriate place than the others.
3. Cloud coverage?: If in a desired region, there is cloud coverage usually, then solar power will be scattered and for example, orientation of collector plates is not that sensitive, which has to be, because light emitting from different directions.
4. Smoke fog: air pollution and amount of smoke fog are affecting the amount of sunlight we are getting. If desired location has heavy air pollution, as a result solar systems will have low efficiency.
5. Air accumulation: in mountains and height's better sunlight can be received because air layers have thinner thickness in heights.
6. Temperature: as low as temperature be we'll have better semiconductor systems, and as a result their efficiency will be higher. Generally, efficiency of a cold day with clear sky is higher than a sunny day.
7. Fug aggregation: pollution fug and fog coverage of it can be effective in reducing efficiency.
8. Wind: It can be effective in a utilization rate of solar equipment.

**Advantages of utilizing these solar systems are:**

1. Low depreciation and longer life: solar power plants because of technical reasons and not having depreciation have long life and life of them expected as long as 75 years that this matter reduced its yearly costs but this number for fossil power plants is as low as 15 to 30 years.
2. Water is not required: solar power plants, especially in warm weather do not need water. Therefore, for dry regions are very efficient and appropriate while in the fossil power plant's high amount of water is required in dryer towers and refineries.
3. Electricity production without burning fuels: solar power plants do not need any other fuels because they use only solar energy for producing power and with reserving energy can work in nights too, opposite to fossil power plants which electricity produced by them will be depended on oil price and always is changing. In these power plants, there is no such fluctuation and can make the price of consumer electricity fixed for a long period of time.
4. The expert workers is not required: solar power plants do not need high level of sophistication, and it can start automatically while in fossil power plants and especially in atomic power plants high level expert is necessary and mentioned facilities need constant observation.

**Main challenges of solar-energy utilization in developing Malaysia:**

1. Technical and mechanical barriers: geographical conditions and inherent limitation of recyclable energies such as climate that determine potential of the region, and present technological barriers can be one of the reasons behind not developing of new energies in developing countries.

2. Financial Barriers: most important, barrier of not developing unused energies in developing countries can be this factor. This problem is derived itself from two points: high cost of fresh energies compared to fossil energies, and the other is subsidized paid for fossil energies that reduce their average price and make it non competitive.

3. Recognition barriers: recognition barriers include lack on knowledge and assurance in this field which itself derived from inappropriate prejudices, and it formed in society in family's level and also in private section as well as government section, and it is due to lack of information in this field. For example, none of the families or institutes or companies planning on new energies as one of the sources of their energy supply chain

4. Principal barriers: presence of a few organizations in these fields, lack of presence of supportive rules, and lack of presence of appropriate market, etc. are principal barriers in developing these new energies in the country. In case of developing countries, even though lots of efforts have done on clarifying a priority of green energies to other energy sources but results in this field is very poor because the in general actual place of bio environmental factors in production and policy-making systems in not determined and unfortunately until the time that problem resulted from fossil fuels is not reaching the stage of obvious destruction of environment, a complete notice of society cannot be enticed to support it.

## **CONCLUSION:**

In this research, the environmental factors on entrepreneurship were analyzed in solar energy using the qualitative approach. This study found all the elements in two dimensions, which are the entrepreneurial culture and mindsets as well as the entrepreneurial supports and governmental policies, are the factors that contributed to the success in entrepreneurship. The elements such as entrepreneurial role models, presence of experienced entrepreneurs, skills and knowledge of entrepreneurs, cultural attitudes towards entrepreneurship and proximity of entrepreneurial universities are strongly correlated with the entrepreneurial culture and mindsets. The entrepreneurial supports and governmental policies are related to the business angels and risk capital availability, availability of financial resources, government influences and supports for entrepreneurship in addition to the role of government policies on entrepreneurial activity. Those elements in both dimensions provide theoretical support to the success in entrepreneurship. Nevertheless, from the findings, we found that the elements of the entrepreneurial culture and mindsets are the most important factor that contributes to the success in entrepreneurship in Malaysian solar-energy industry.

Without doubt recyclable energies regarding simplicity of technology compared to atomic energy technical complexity from one side and from the other side because of not making problems such as greenhouse gases and atomic wastes will play an important role in modern energy systems in the world. Anyway, it has to be mentioned that practically various factors, especially initial costs and final high cost, lack of investment for localizing and improving efficiency of related technologies, lack of supportive policies in global, regional, and local levels will reduce and limit development of modern energies. Meanwhile, it has to be noticed that regarding growth in electricity production technology in the world, fluctuated cost of production, conducting, and distributing of electricity will be lower than current prices in long-term and efficiency of electricity production in power plants that use fresh energies will be higher extensively. None of these can happen without Entrepreneurial Skills, policymaking and huge investment of governments for promoting and developing of electricity production form fresh energies with economic supporting of active companies in this field. It seems that there are

various barriers for utilizing these energies in Malaysia that generally are: technical and technological barriers, financial, recognition and awareness, and fundamental barriers.

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# COMPARATIVE EVALUATION OF FINANCING STRATEGIES FOR ENTREPRENEURS

## (CASE STUDY: ENTREPRENEURS IN THE TOURISM ORGANIZATION)

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### **Sub Theme:** Technology and Strategic Entrepreneurial Growth

**Objectives:** One of the most important challenges facing entrepreneurs or perhaps the main obstacle for establishment and continuation of their business is financing. Thus, the aim of the present study is comparative evaluation of financing strategies for entrepreneur of Cultural Heritages, Handicrafts and Tourism Organization throughout Mazandaran province.

**Approach/Methods:** According to the definition provided by the Global Entrepreneurship Monitoring (GEM), 25 entrepreneurs associated with the organization chosen as the sample.

**Results/Insights:** Results have shown that the entrepreneurial projects of the 25 cases reviewed, only five of the projects 12, 14, 15, 19 and 23, entrepreneurs properly have selected their financing strategies and about twenty others have chosen their strategies wrong.

**Implications:** based on the results, some suggestions are offered and it is concluded that entrepreneurs choose aggressive or conservative financing strategies with regards to innovation and expected return of projects.

**Keywords:** Strategy, Financing, Entrepreneurs, Tourism, Mazandaran.

**Abstract:** One of the most important challenges in the face of entrepreneurs or perhaps the main obstacle for establishment and continuation of their business is financing. Thus, the aim of the present study is comparative evaluation of financing strategies for entrepreneur of cultural heritages, handicrafts and Tourism Organization in Mazandaran province. Sample of 25 entrepreneurs related to Tourism Organization were according to the definition provided by the Global Entrepreneurship Monitoring (GEM). Required data is extracted by means of documents. To affirm the assumptions, the efficiency of both conservative and aggressive financing strategy is evaluated in the form of

mathematical models. Results have shown that among the entrepreneurial projects of the 25 cases reviewed, only in five projects including 12, 14, 15, 19 and 23, entrepreneurs properly have selected their financing strategies and about twenty others have chosen their strategies wrong. Finally, based on the results, some suggestions are offered and it is concluded that entrepreneurs had better choose aggressive or conservative financing strategies according to innovation and expected output of projects.

**Keywords:** Strategy, Financing, Entrepreneurs, Tourism, Mazandaran.

## **1. Introduction**

Newly established companies are known to create new jobs, innovation, flexibility and economic growth (Birch, 1979). One of the major problems in the process of creating new entrepreneurial activities is financing (Hisrich et al., 2004). The process of obtaining the required funds may take months and dissuade entrepreneurs from businesses and professional management. Lack of financial resources is an effective factor in the failure of many businesses. However, due to the high rates bankruptcy in new small businesses, financial institutions are not willing to lend or invest funds because the capital that entrepreneurs need for starting their businesses is always associated with high risk. A new company, often begin to operate by founder's money before attracting large amount of capital by investors. Actually founders' available resources are limited. Therefore, at the next step, the company needs more capital to ensure its growth and will acquires it from foreign investors (Schwienbacher, 2007). It is noteworthy that bank financing and adventurous investor are different in several cases. Especially financing by bank is normally through loans while adventurous investor' financing is primarily by stock (De Bettignies & Brander, 2007). It means that the adventurous investors in exchange for shares of a company provide its needed capital. Another important difference is that banks are more passive investors while adventurous investors are normally consultant in management of companies which seeking fund. The decision that financing pursue would be provided through adventurous investor or not, is very important for entrepreneur. Most of them are not looking for adventurous investors. Moreover, entrepreneurs who receive suggestions from adventurous investor reject them.

Which strategy will company use in order to achieve the required financing? According to the theoretical framework, two alternative financing strategies will be compared. They can wait until earn enough money to complete their projects or use their own savings to achieve the aim before facing with investors such as adventurous investors (Schwienbacher, 2007). In order to answer the above question, the conceptual model including both conservative and aggressive financing strategies in the form of mathematical models will be used in this study. Thus, the purpose of this study is determining the expected return of conservative and aggressive financing strategies of entrepreneurs who operate in Tourism Organization of Mazandaran province and determining the optimal strategy against their selected strategy.

## **2. Background and Hypothesis**

### **2.1. Entrepreneurship**

Entrepreneurship focuses on providing innovation in products, processes, and new markets as stimulating factors in the production of wealth (Daily et al., 2002). Entrepreneurship is the discovery and use of profitable opportunities as the basis for wealth creation (Shane & Venkataraman, 2000). All views agree on the identification of opportunities in the entrepreneurial activities centre (Brown & Eisenhardt, 2000). According to Cantillon, entrepreneurs are people who work in insecure and unstable environment and are faced with many problems (Salehi, 2002). They can start their jobs without capital and their main capital is their work. The Webster dictionary defines the entrepreneur as persons who undertake to organize and manage risk of an economic activity (Eskand..., 2000). The needed fund for starting businesses has always been a challenge for entrepreneurs. Because without adequate fund, new businesses will never be successful and the lack of investment is the cause of many failures in new business.

## **2.2. Financing**

Creation of companies with innovative products and services has been introduced as a key stimulate of wealth creation and economic growth. Many of these new companies use their own resources before starting to use foreign investors such as banks and private investors (Bayens & Manigart, 2005; Cosh et al., 2005). Three primary sources of funding for newly established companies are friends, family, and business angels (Austin, 2006). However, there is a little information about the incentives that makes people entrepreneur and the strategies that they use to achieve their goals. Furthermore, it is clear that economic theories requires to use a different approach as to entrepreneurship in order to understand the strategic orientation of entrepreneurs well, because there is not one type entrepreneur in the economic community but there are many types of it (Schwienbacher, 2007). External financing of small and medium companies is a very important research topic for academics and politicians around the world (Berger & Udell, 2006). One of the biggest challenges for entrepreneurs and perhaps most important obstacle for launching businesses is lack of financial resources for needed capital. Entrepreneurial financing literature has grown widely in recent decades (Bettignies & Brander, 2007). By estimating financial needs of local demand, Najafi et al have shown that the conservative strategy is used more for entrepreneurs' financing of rural area in Iran. Rosen has showed nonlinear relationship between company life and domestic financing. This form of financing has increased for several years and then decreases. The key point is that domestic financing is crucial for small entrepreneurial firms and does not seem that the importance of domestic sources of financing change in near future (Rosen, 1998). Entrepreneurs may use various sources of financing in the course of starting their work. If founders succeed in their job, it will be expected that they have greater access to financial resources than novitiate founders. Therefore, it is expected that the novitiate founders rely on personal savings, family and friends as source of financing in starting a business (Westhead & Wright, 1998). Policies and financing structure of countries have an impact on companies' access to financial resources. Tend to financing through venture capital depend on investor's ability in obtaining managerial advice for firm. Because in this case, financing through bank is preferred to financing through venture capital. Financing through venture capital has advantage that gives considerable managerial consults to the company. It is expected that financing through venture capital has higher added value in comparison to the bank (De Bettignies & Brander, 2007). Entrepreneurs can choose two types of strategies for financing. They can wait until earn enough money to complete their projects (conservative strategy) or make use of limited resources before negotiating with larger

investors such as venture capital or banks (aggressive strategy) (Schwienbacher, 2007). According to above reviewed literature, in the present study the following hypothesis will be examined and tested:

**Hypothesis:**

There is no significant difference between optimal and selected financing strategies in Tourism Organization of Mazandaran province.

**3. Methodology**

**3.1. Sample**

The samples of present study are 25 owners of business plans who seek loans from the Tourism Organization of Mazandaran province. These were people who had founded at least one company in the province so that they can be regarded as an independent entrepreneur (GEM, 2008). Although these people operate in different professions, but they have been considered homogeneous in terms of mentioned launching and continuing business in the field of Tourism activities. In the listed sample, twenty-four people were male and one of them was female, eighty percent were under forty years old, sixty-five had less than fourteen years work experience, and sixty-nine percent had education under bachelor.

**3.2. Data and Analysis Method**

Required data for study has been collected by visiting the mentioned organization and investigating available documents. Time scale of study is data related to the years 2009 to 2011. Its place domain is owners of business plans in Tourism Organization of Mazandaran province, who have demanded the loan. In the present study, expected output of aggressive and conservative strategies is considered as dependent variable. and independent variables include: probability of obtaining required capital, entrepreneur’s bargaining ability, value of business plan, amount of required investment for business plan, probability of reaching milestone (getting to exploitation stage and taking license of exploitation), Some of the total required capital for reaching milestone, cost of extra effort towards the first strategy. Two mathematical models have been used with the symbols  $\Pi^e_1$  and  $\Pi^e_2$  to obtain revenues arising from conservative and aggressive strategies.

About first strategy ( $S_1$ ), every entrepreneur’s expected output is:

$$\Pi^e_1 = W(T) \rho(T)[V-K] \quad , \quad W(t) = \delta T \quad , \quad \rho(T) = 1/2 \delta T$$

$\Pi^e_1$ = Expected output of the first strategy

$W(T)$ = Probability of obtaining required capital

$\rho(T)$ = Entrepreneur’s bargaining ability

V= Value of business plan

K= Amount of required investment for business plan

About second strategy (S<sub>2</sub>), every entrepreneur's expected output is:

$$\Pi^e_2 = P(T) [V - (K - k)] - k - C$$

$\Pi^e_2$  = Expected output of the second strategy

P(t) = Probability of reaching milestone (getting to exploitation stage and taking license of exploitation)

K = Some of the total required capital for reaching milestone

C = Cost of extra effort towards the first strategy

In the first strategy, the probability of obtaining the required capital means that how much entrepreneurs are hopeful to attract the required capital that obtains from division of entrepreneur's capital on the total required capital that is shown with W (T) in the model. Entrepreneur's bargaining ability means that based on entrepreneur's capital, how much he can be hopeful to attract the remained capital. The plan value is obtained by calculating the present value of future earnings and shown with V. Each plan requires to the extent of capital for project implementation that here is shown with K. Further, in each plan, entrepreneur may provide some capital. Any plans must be reached to exploitation stage to obtain financing through a bank. In the second strategy, before attracting financing entrepreneur provides fund for costs that are related to project implementation. These costs are considered as a project costs and are shown in our model with C. This project's cost are taking licensees, following up management, cost counseling and monitoring plan during the implementation of banking contracts. Therefore, regarding to the fact that banks' rate is annual and this rate may change every year, all plans are considered for one year.

## 4. Findings

### 4.1. Descriptive Statistical Data

The following table shows the descriptive statistical data to calculate the output of conservative and aggressive strategies of entrepreneurs. Numbers are Dollars.

Table 1. Statistical Data

| <i>Project<br/>s</i> | <i>Bank'<br/>Investment</i> | <i>Entrepreneur'<br/>s Investment</i> | <i>Required<br/>Investment</i> | <i>Anticipated<br/>Income</i> | <i>project' cost</i> |
|----------------------|-----------------------------|---------------------------------------|--------------------------------|-------------------------------|----------------------|
| 1                    | 2,000,000                   | 607,200                               | 2,607,200                      | 1,246,400                     | 10,000               |
| 2                    | 2,350,000                   | 1,184,700                             | 3,534,700                      | 845,500                       | 100,000              |
| 3                    | 328,400                     | 140,800                               | 469,200                        | 153,300                       | 32,900               |
| 4                    | 302,500                     | 129,700                               | 432,200                        | 131,400                       | 24,900               |

|    |            |             |                |                |               |
|----|------------|-------------|----------------|----------------|---------------|
| 5  | 63,488,800 | 154,493,400 | 217,982,200    | 32,837,400     | 4,245,700     |
| 6  | 5,700,000  | 1,554,500   | 7,254,500      | 3,807,400      | 216,200       |
| 7  | 1,256,700  | 0           | 1,256,700      | 366,000        | 0             |
| 8  | 631,000    | 262,500     | 893,500        | 371,000        | 700           |
| 9  | 130,500    | 0           | 130,500        | 191,500        | 0             |
| 10 | 800,000    | 208,200     | 1,008,200      | 937,900        | 0             |
| 11 | 282,300    | 0           | 282,300        | 138,700        | 0             |
| 12 | 2,250,000  | 575,500     | 2,825,500      | 1,843,000      | 170,000       |
| 13 | 600,000    | 250,600     | 850,600        | 418,000        | 0             |
| 14 | 1,120,000  | 280         | 1,400,400      | 1,040,200      | 42,000        |
| 15 | 530,000    | 236,500     | 787,400        | 558,000        | 21,900        |
| 16 | 4,000,000  | 1,272,200   | 5,272,200      | 3,561,900      | 0             |
| 17 | 16,800,000 | 11,451,200  | 28,251,200     | 929,000        | 17,800        |
| 18 | 31,100,000 | 10,650,500  | 417,505        | 10,605,600     | 1,640,300     |
| 19 | 322,000    | 161,000     | 483,000        | 170,500        | 0             |
| 20 | 550,000    | 367,600     | 917,700        | 468,000        | 26,000        |
| 21 | 1,400,000  | 0           | 1,400,000      | 1,040,200      | 0             |
| 22 | 42,600,000 | 42,600      | 85,200         | 41,800         | 7,000         |
| 23 | 322,000    | 161,000     | 483,000        | 170,500        | 0             |
| 24 | 0          | 0           | 43,566,716,500 | 10,605,600,000 | 2,576,000,000 |
| 25 | 600,000    | 250,600     | 850,600        | 418,000        | 0             |

#### 4.2. Expected Return of Strategies

Expected return of aggressive and conservative strategies for entrepreneurs' financing in Tourism Organization described in the below table based on mathematical models.

Table 2. Expected Return of Strategies

| <i>Projects</i> | <i>Strategies</i>                        |  |
|-----------------|--|--|
|                 | <i>Conservative <math>\Pi^e_1</math></i> | <i>Aggressive <math>\Pi^e_2</math></i> |
| 1               | 294113341                                | -966766662                             |
| 2               | -257515878                               | -10612698473                           |
| 3               | 39863788                                 | -1031351164                            |
| 4               | 20649428                                 | -1005817481                            |
| 5               | -310474500673                            | -1492386834612.4                       |
| 6               | 451037907                                | -6879481189                            |
| 7               | 0  | 1616696167                             |
| 8               | 88741457                                 | 1223310900                             |
| 9               | 0  | 1742200199                             |
| 10              | 359903934                                | 3748809556                             |
| 11              | 0  | 357793709                              |
| 12              | 804807837                                | 6253088725                             |
| 13              | 290931148                                | 326429496                              |
| 14              | 478                                      | 6913981644                             |
| 15              | 560743359                                | 1966749506                             |
| 16              | 2238142455                               | 14843529504                            |
| 17              | -20431376977                             | -155983055434                          |
| 18              | 81161567                                 | -89370977687                           |
| 19              | 3834295                                  | -1093869105                            |
| 20              | 172979792                                | -2142506616                            |
| 21              | 0  | 7337342375                             |

|    |           |                 |
|----|-----------|-----------------|
| 22 | 128917346 | -48513353       |
| 23 | 3834295   | -1093869105     |
| 24 | 0         | -30580665390543 |
| 25 | 290931148 | 326429496       |

### 4.3. Determining the Optimal Strategy against the Selected Strategy

The following table shows the optimal strategy against the selected strategy of entrepreneurs' financing in the Tourism organization.

Table 3. Test Results

| <i>Projects</i> | <i>Optimal Strategy</i> | <i>Selected Strategy</i> | <i>Hypotheses Result</i> |
|-----------------|-------------------------|--------------------------|--------------------------|
| 1               | Conservative            | Aggressive               | Reject                   |
| 2               | Conservative            | Aggressive               | Reject                   |
| 3               | Conservative            | Aggressive               | Reject                   |
| 4               | Conservative            | Aggressive               | Reject                   |
| 5               | Conservative            | Aggressive               | Reject                   |
| 6               | Conservative            | Aggressive               | Reject                   |
| 7               | Aggressive              | Conservative             | Reject                   |
| 8               | Conservative            | Aggressive               | Reject                   |
| 9               | Aggressive              | Conservative             | Reject                   |
| 10              | Aggressive              | Conservative             | Reject                   |
| 11              | Aggressive              | Conservative             | Reject                   |
| 12              | Aggressive              | Aggressive               | Accept                   |
| 13              | Aggressive              | Conservative             | Reject                   |
| 14              | Aggressive              | Aggressive               | Accept                   |
| 15              | Aggressive              | Aggressive               | Accept                   |

|    |                     |                     |               |
|----|---------------------|---------------------|---------------|
| 16 | <i>Aggressive</i>   | <i>Conservative</i> | <i>Reject</i> |
| 17 | <i>Conservative</i> | <i>Aggressive</i>   | <i>Reject</i> |
| 18 | <i>Conservative</i> | <i>Aggressive</i>   | <i>Reject</i> |
| 19 | <i>Conservative</i> | <i>Conservative</i> | <i>Accept</i> |
| 20 | <i>Conservative</i> | <i>Aggressive</i>   | <i>Reject</i> |
| 21 | <i>Aggressive</i>   | <i>Conservative</i> | <i>Reject</i> |
| 22 | <i>Conservative</i> | <i>Aggressive</i>   | <i>Reject</i> |
| 23 | <i>Conservative</i> | <i>Conservative</i> | <i>Accept</i> |
| 24 | <i>Conservative</i> | <i>Aggressive</i>   | <i>Reject</i> |
| 25 | <i>Aggressive</i>   | <i>Conservative</i> | <i>Reject</i> |

## 5. Discussion and Conclusion

So far, many studies have been done about approach and strategies for financing entrepreneurial projects. Najafi et al (1383) have shown that the conservative strategy is used more in rural areas of Iran. Rosen (1998) has emphasised on a conservative approach and said this form of financing increases during the several years and then decreases. Westhead et al (1998) have pointed out that entrepreneurs may use different ways of financing at the beginning of their work. Novitiate founders rely on personal savings, family and friends (conservative strategy), and experienced founders fund through customers and suppliers (aggressive strategy) as sources of financing in starting of business. According to Berger (2006), financing strategies for entrepreneurs are mainly from loans (aggressive) despite of supportive policies and governmental financing structure in the countries.

According to De Bettignies et al (2007) among varied types of aggressive procedures, selecting the method of financing through venture capital can have a higher added value than financing through bank regarding to significant advantages of taking managerial consultation for the company. Based on the mentioned discussions, entrepreneurs have used also different strategies in the present study according to this point. There is consistency and compatibility between the results of this study and the mentioned research. Meanwhile the results of present research are in conflict and contradiction with and Schwiendbacher findings (2007). He says entrepreneurs by analyzing their own situations and conditions can use one of the conservative and aggressive strategies that have the most added value. This means that entrepreneurs in the present study have selected their strategies according to their test and without analysis.

Based on the results arising from reviewing the literature there are many types of entrepreneurs. In addition, for each of them, some methods of financing are more

favourable. There are numerous methods of financing for business projects. However, there are some methods of financing in our country and are applicable. Executive managers should know that they must set up appropriate infrastructure in terms of legal, regulatory, social etc in order to efficient financing. Banks managers also should know that, only considering the financial indicators are not sufficient for reviewing the justification of business plans. Non-financial indicators should also be used for justifying the business plans. Also, justification review some in plans may not applicable because of the novelty therefore other indices should be used in this case. Based on the results of field studies, among twenty-five entrepreneurs only five of them select their financing strategies properly and twenty others have chosen their strategy wrong. According to this fact, in projects number 1, 2, 3, 4, 5, 6, 8, 17, 18, 20, 22 and 24 conservative strategy must be selected but aggressive strategy was chosen in the real world. On other hand, in projects number 7, 9, 10, 11, 13, 16, 21 and 25 aggressive strategy must be selected but conservative strategy was selected. Only strategies in projects number 12, 14, 15, 19 and 23 were selected correctly. Executives and entrepreneurs must know that there is not any preference in personal financing with a loan to financing through loans. But regarding to inconstant conditions and inflation in the country, high risk in financing for business projects does not seem desirable for bank and entrepreneur. Each of conservative and aggressive financing strategies are applicable depending on projects innovation and necessity of operating plan. It should be noted that in projects that time has less importance conservative strategy seems more desirable.

Regarding to the present essay, the following suggestions will be presented in order to future research pertaining to the subject:

- Assessing the output of business plans base on strategies other than the strategies outlined in this study.
- Comparison of entrepreneurs' financing methods and presenting the local model of financing.
- Investigating the effective factors of financing in business plan.

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# **THE IMPACT OF ENTREPRENEURIAL ORIENTATION AND STRATEGY PROCESS CHARACTERISTICS ON THE SUCCESS OF NEW ENTREPRENEURS IN THE WESTERN CAPE**

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## **ABSTRACT**

This paper focuses on *action strategies* of 60 new entrepreneurs in the Western Cape. The total entrepreneurial activity rate in South Africa was 9.1% 2011 compared to 8.9% in 2010 (Simrie, Herrington, Kew, & Turton, 2011). Furthermore, total entrepreneurial activity has been consistently low in South Africa and lag behind other developing economies (Herrington, Kew & Kew, 2010). This has serious implications for future economic growth and for the South African government's growth strategy. This contribution discusses a theory of entrepreneurship, its empirical base and its implications. First, it argues that a psychological approach is needed to understand entrepreneurship. Second, the study suggests that action should be used as a starting point. Third, it discusses an action theory to understand the psychology of entrepreneurship. Fourth, the findings demonstrate how action theory can help to understand entrepreneurial success. Finally, we suggest intervention programs to help entrepreneurs to be successful.

**KEYWORDS:** success, action strategies, strategy process characteristics, entrepreneurial orientation, new entrepreneurs, SMEs

## **1. INTRODUCTION**

The Global Entrepreneurship Monitor (2009) indicated that South Africa has the lowest rate of total entrepreneurial activity compared to similar economies. Another finding suggests that South African start-up businesses are least likely to grow into mature firms (Kotze and Smit, 2008). This has serious implications for future sustainable economic growth, and for the South African government's growth strategy, particularly as it is expected that small business development could create two and a half million jobs by 2020 (Finmark Trust, 2010).

Therefore the introduction of the National Small Business Act of 1996 (amended in 2004) is aimed at promoting SMEs and making entrepreneurship a priority focal area for job creation and economic development (Department of Trade and Industry, 2008). The policy and strategic framework at National level has resulted in the Provincial Government of the Western Cape implementing numerous support programs to develop SMEs and to make financial and non-financial support more accessible. This is in line with the government's attempts to ensure and develop an entrepreneurial culture that leads to enterprising behavior and increasing aspirations toward self employment.

Lack of finance has been shown to be the primary factor for business failure (Fatoki and Akinwumi, 2010). Other views suggest that lack of finance can be overemphasised while other factors such as entrepreneurial skills and training are understated (Maas, et al., 2008). Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen (2008) argue that managerial competencies, such as knowledge, skills, attitudes and personal qualities, are important determinants of sustainable successful entrepreneurship. Due to the fact that entrepreneurship is so complex the search for distinctive entrepreneurship theories continues.

This study offers empirical evidence to suggest that action by the entrepreneur drives success and should be included in entrepreneurship research. This study should have significant value to government SME support initiatives such as the RED DOOR in the Western Cape.

## **2. THE THEORETICAL MODEL**

Currently, entrepreneurship is less established from an academic science perspective and a large academic community beckons to express new views on the subject through scientific journals and conferences. However, to date entrepreneurship has lacked the development of rigorous conceptual models that offered better explanations of sustainable successful business development. In the field of social science it is imperative that a conceptual framework explains and predicts a set of empirical phenomena that is not explained by existing conceptual frameworks (Frese, Friedrich & Krauss, 2007).

The field of entrepreneurship research presents scholars with multiple disciplines (such as psychology, economics, management science and anthropology) and consequently different insights into entrepreneurship. The growing body of knowledge in entrepreneurship is evident as new publications are seen in diverse journals, such as the Journal of Applied Psychology, Academy of Management Review, Journal of Small Business Management, Entrepreneurship Theory and Practice, and Administrative Science Quarterly. However, to advance knowledge in this field and to demonstrate practical usability thereof, it is necessary to develop more theoretical approaches to produce significant empirical research.

Entrepreneurship as a theoretical construct and a practical phenomenon remains poorly defined and the interpretation fragmented, suggesting new lines of enquiry (Kikooma, 2010). As more and more psychologists are working in the field the emphasis on psychological variables have shifted from personality and trait approaches to action-based perspectives (Foo, M.D., Uy, M.A. and Baron, R.A., 2009).

Hence, the introduction of enquiries utilising psychological frameworks marks a fresh approach involving a general success model of entrepreneurship that takes into account all psychological variables in order to give coherence to entrepreneurship literature, with the focus on the entrepreneur as the main actor (Van Gelderen, 2007). This approach can be of significant value to sustainable enterprise development in early stage entrepreneurship activity. More specifically, this development relates to the development of nascent entrepreneurs<sup>1</sup> to new entrepreneurs<sup>2</sup>.

**Insert figure 1 here**

The model is a general framework of success based on the main assumption that actions lead to success and presents the central model in this study. The main focus is on action strategies of the entrepreneur. None of the other variables have a direct relationship to success. Strategies have been emphasized as very important to entrepreneurship research (Chandler, 1962; Anshoff, 1965; Porter, 1980). Entrepreneurial actions and processes have also been studied in pre start-up, start-up and post start-up phases of successful and unsuccessful enterprises (Baron and Katz, 2007). This study focuses on understanding entrepreneurial actions and processes of new entrepreneurs.

### **3. STRATEGY PROCESS CHARACTERISTICS**

An intense debate has emerged in entrepreneurship literature on the value of planning, particularly relating to emerging entrepreneurs. Some scholars argue that formal planning is a vital component in preparing emerging entrepreneurs. A study has shown that in the top 100 business schools in the United States, 78 schools offer courses on business plan writing (Honig & Karlsson, 2007). Scholars have also pointed out that in many countries; business plan competitions play a crucial role in promoting entrepreneurship (Karlsson and Honig, 2007). The question remains as to whether business plan writing skills and the business plan itself can be singled out as a major contributing factor in success.

The emergence of theories studying entrepreneurial processes in relation to success presents important milestones in entrepreneurship research. Strategy process characteristics have provided some useful insights relating to the implementation of general action templates in daily situations (Gielniek, 2010). Frese's (2000) definition

of action strategy distinguishes four areas, namely, complete planning, critical point planning, opportunistic planning and reactive planning strategies. Higher level planning strategies such as complete planning and critical point planning strategies represent the top down approach, while lower level planning strategies such as opportunistic planning and reactive planning strategies represent a bottom-up approach. Higher level planning strategies also involve long term planning and high goal orientation which is translated into commitments of personal (time and effort) and financial resources.

**Hence, H1: Complete Planning and Critical Point Planning is positively correlated to Entrepreneurial Success.**

**H2: Opportunistic and Reactive Planning is negatively correlated to Entrepreneurial Success.**

#### **4. ENTREPRENEURIAL ORIENTATION**

Two approaches have emerged in the literature. Some scholars study entrepreneurial orientation (EO) in order to distinguish between managers and business owners, while others focus on performance and firm growth. The underlying theoretical basis of EO is that firms with higher levels of EO are more likely to experience higher levels of performance and growth. This has been demonstrated in entrepreneurship as well as strategic management research (Boris, 2008). Research involving EO shows important linkages to technology and firm innovation, not only in order to become more competitive, but also for international expansion (Rwigema & Venter, 2008).

While EO has been studied mostly within an organisational context in relation to technology and firm innovation, more attention has recently been given to SMEs, particularly at different stages of firm development (Chen, He and Jin, 2008; Guan and Liu, 2007; Morris, Kuratko and Covin, 2008) .

Against this backdrop, entrepreneurship research involving EO at the individual level of analysis has been examined in order to understand the entrepreneurial process in relation to successful entrepreneurship. There are five basic dimensions of EO (innovation, proactiveness, risk-taking, autonomy and competitive aggressiveness) that have been used extensively in order to understand the entrepreneurial process in relation to performance (Lumpkin and Dess, 1996).

Krauss, Frese & Friedrich (2005) examined the EO-success relationship at the individual

level in a South African context. The study reported significant relationships between achievement orientation, personal initiative and business performance, making a unique contribution to entrepreneurship research involving psychological perspectives. Recent developments have also found that EO can be influenced by culture and the business environment (Frese, Brantjes and Hoorn, 2002; Krauss et al., 2005). Similar findings have been made by Thomas and Meuller (2000) suggesting that high levels of EO lead to success in entrepreneurship.

Current research relating to EO-business success has shown that behaviour proximal

to medium domain specificity (for example, learning orientation) is more predictive of entrepreneurial success than low domain specificity (such as conscientiousness) in the entrepreneurial process. These research findings suggest that EO and its components are valuable predictors of business success in a South African context (Krauss et al.,

2005).

Hence:

**H3 – Entrepreneurial Orientation is positively related to Entrepreneurial**

**Success.**

**H4 - Entrepreneurial Orientation components (innovation, autonomy, personal initiative, autonomy and achievement) are positively related to Entrepreneurial Success.**

## **5. METHODOLOGY**

### **5.1 RESEARCH CONTEXT**

The apartheid regime prevented black South Africans from owning businesses except in very limited areas. Thus, business owners in South Africa are typically poorly educated and have only limited small business experience. Following the legacy of the apartheid regime, South Africa has performed more poorly on a number of small business indicators than most developing countries – despite favourable economic conditions (Maas & Herrington, 2006). SMEs face a number of challenges. Growth levels are not adequate in South Africa – of the 20% of SME's that succeed, 1% manages to grow into large scale businesses and employ more than 10 employees (Mead & Liedholm,

1998; Frese 2000; GEM, 2008). Against this background only emerging businesses were included in the study.

## **5.2 THE SAMPLE**

All the businesses were based in Cape Town and surrounding business districts and consisted of SMEs operating businesses in trade, manufacturing, services and construction sectors. The businesses were randomly selected from the Western Cape Business Opportunity Forum (WECBOF). SMEs registered as members with WECBOF typically represent the previously disadvantaged entrepreneurs.

The criteria for selecting SMEs from the database included the following:

- SMEs were selected from the WECBOF database
- SMEs who ran their businesses for at least three months but not more than three and a half years
  - SMEs have at least one employee and not more than 50 employees
  - Only owners were included in the sample
  - Only formal businesses were included in the study

**Insert table 1 here**

## **5.3 RESEARCH HYPOTHESES**

**Hypothesis 1:** Reactive and opportunistic strategies are negatively correlated to success.

**Hypothesis 2:** Complete planning and critical point-planning strategies are positively related to entrepreneurial success.

**Hypothesis 3:** Entrepreneurial orientation is positively correlated to success.

**Hypothesis 4:** Innovation, personal initiative, autonomy, risk-taking and achievement is positively related to success.

## **5.4 INTERVIEW PROCEDURE**

The interview procedure has been successfully piloted to a small group of entrepreneurs in Zimbabwe by Frese, Krauss and Friedrich (2000). This procedure was further modified and adapted by the research team for South African conditions. Structured interviews were employed, both in the sense of a structured script for the interview and with a structured analysis scheme to code the answers, and an interviewer evaluation. The interviews were done in English and no tape recordings were done because of the noise level of certain sites. The interviewer wrote down the answers as verbatim as possible in detailed notes. Immediately following the interview, the interviewer did an interviewer evaluation questionnaire, which assessed the interviewers' impressions on success factors.

## **6. OPERATIONALIZATION OF THE VARIABLES**

### **6.1 ENTREPRENEURIAL ORIENTATION**

A three step procedure was used in this study to measure individual level EO. The first step was to employ different methods in order to obtain the measurements of the constructs on EO. These methods entailed interviews, questionnaires and interviewer evaluation. The constructs of individual level EO were innovation, autonomy, personal initiative, achievement orientation and risk-taking.

Innovation was measured via interview and interviewer evaluation and consisted of four items. Respondents were asked plans for changing their product/service mix over the next twelve months. They were asked to motivate the reasons for wanting to change their product/service mix. Respondents were also asked whether they had an innovative idea over the past two years and how the idea was generated. Finally, respondents were asked about the origination of the idea.

Autonomy, achievement orientation and risk-taking were measured as per the questionnaire and interviewer evaluation. Autonomy consisted of two items and respondents were asked if they would accept a job from an organization without a decline in income as opposed to working for themselves. Secondly, they were asked about growth oriented goals for the business or if they were in business merely to earn a living. Achievement orientation consisted of six items and was obtained via a five- point Likert scale. Respondents were asked about their orientation about work, perseverance, diligence and the extent to which they would go in pursuit of a goal. Risk-taking consisted of eight items and was obtained via a five-point Likert scale. Risk-taking was based on a questionnaire by Gomez-Mejia and Balkin (1989; adapted to the entrepreneurial context

by Norton & Moore, 1998).

Personal initiative was measured via the overcoming barriers approach by Frese, Fay, Hilberger, Leng & Tag (1996) and was done through the interview procedure. Personal initiative consisted of five items as per the interview and seven items as per the questionnaire. Whenever the respondents presented a solution, they were told to imagine that the solution did not work and that they needed to come up with a new solution.

The second step of the procedure entailed the combination of the multiple measures obtained through the interview, questionnaire and interviewer evaluation methods. The measures obtained for *innovation, personal initiative, autonomy, risk-taking and achievement orientation* were combined into single measures. The third step entailed the combination of all five components into one single overall measure of individual level EO.

## 6.2 STRATEGY PROCESS CHARACTERISTICS

**Insert table2 here**

Strategy process characteristics are regarded as general action templates of business owners. Process characteristics have been classified into four areas, namely, *complete planning, critical point planning, opportunistic planning and reactive planning strategies* (Frese, 2000). These strategies were classified into five categories, namely, goal orientation, planning, knowledge base, proactiveness and situation response and were combined to form a measure of strategies (see table 2).

## 6.3 HUMAN CAPITAL

Human capital theory is concerned with knowledge and experiences of small-scale business owners. The general assumption is that the human capital of the founder improves small firm's chances to survive (Bruederl Preisendoerfer, & Ziegler, 1992). Human capital acts as a resource. Human capital makes the entrepreneur more efficient in organizing processes or in attracting customers and investors. Different studies used various operationalizations of human capital. Bruederl et al. (1992) distinguished between general human capital -years of schooling and years of work experience- and specific human capital- industry specific experience, self- employment experience, leadership experience, and self-employed father.

Human capital consist of *years of business experience (entrepreneurship*

*experience), years of management experience, years of general working experience, level of education and specific training completed in entrepreneurship.*

## **6.4 ENVIRONMENT**

The environment in Chen and Lai's (2010) study consisted of the economic environment, family environment, education environment and social environment. Overall Cronbach's Alpha was 0.85 for the total variable (Chen and Lai, 2010). It is generally accepted that the location should be taken into account as it may impact on the market potential and growth opportunities of emerging SMEs. Easier access to suppliers and buyers allows emerging SMEs to more easily identify and exploit growth opportunities in the market. Similarly, the location of the firm has implications for access to resources such as labour, equipment and technology. It is pointed out that firms operating in metropolitan areas have a greater chance of success than those in rural areas (Fatoki and Akinwumi, 2010).

The external environment is frequently characterized in the literature in relation to dynamism, hostility and heterogeneity. Urban's (2010) study relies on two environmental dimensions, namely dynamism and hostility, which is consistent with earlier research and theory building in the field of entrepreneurship. Dynamism relates to the unpredictability of change in the environment. These changes create opportunities and threats in the environment and compel the entrepreneur to act upon them. Hostility indicates an unfavourable business climate, such as hostile competition, strict regulations and unfavourable supply conditions (Zahra and Bogner,

1999). Environment consisted of environmental dynamism (five items) and hostility

(six items).

## **6.5 SUCCESS**

The mainstream strategy and management literature usually refer to performance and rarely use 'success' as the title word (i.e. the performance/success title word ratio is much higher in leading management journals). Performance is often assessed through

profitability indicators only (see for example, Goerzen and Beamish, 2005). In summary, growth is often used as the primary indicator of 'success' in entrepreneurship research. In mainstream management and strategy research a strong focus on profitability is common. However, growth is commonly accepted as a positive indicator of performance.

Frese & Rauch (2007) used three measures of business success and measured success in two waves. Rauch measured each of the three success measures in wave one. In wave two, he measured the size of the business, growth of the business and the entrepreneur's satisfaction with work. The size of the business was measured according to the number of employees. Growth of the business was measured in terms of the increase in the number of employees over a three-year period.

In another study conducted by Krauss et al. (2005) success was measured in terms of size of the business and business growth. Business growth was measured in the average increase in client, profit and sales growth over the last three years. Business growth had a reliability measure of 0.74 (T1) and 0.86 (T2). In this study, success consisted of four items and was based on a 5-point Likert scale. Success consisted of subjective success, growth success, client success and external success. These measures were combined to form an overall measure of success and had a reliability coefficient of 0.92.

Krauss's (2003) study used business performance that was related to business size (number of employees), business growth (growth in sales, customers and profits) and an external opinion (external success evaluation). Business growth explained 4% of the variance which was significant ( $\Delta R^2 = .04$ ,  $p < .05$ ,  $p < .01$ ). Business size explained 2% of the variance which was significant ( $\Delta R^2 = .02$ ,  $p < .05$ ,  $p < .01$ ).

External success explained 27% of the variance which was significant ( $\Delta R^2 = .27$ ,  $p < .05$ ,  $p < .01$ ).

In this study, success consisted of four items and was based on a 5-point Likert scale. Success consisted of subjective success, growth success, client success and external success. Subjective success consisted of four items and measured the entrepreneur's satisfaction as well as subjective interpretation of success. Growth success consisted of three items and measured changes in sales, employees and profits. Client success consisted of three items and included changes in the number of clients. External success consisted of three items and represented an objective measure of success. These measures were combined to form an overall measure of success and had a reliability coefficient of 0.91. 5-point scales were used in all measures of success.

## 7. RESULTS

When examining the impact of reactive strategy on success, reactive strategy explained 16% of the variance and was statistically significant ( $\Delta r^2 = .16$ ,  $p < .01$ ; model 4,  $\beta = -.40$ ). Critical point planning explained 27% of the variance and was statistically significant ( $\Delta r^2 = .27$ ,  $p < .01$ ; model 5,  $\beta = .53$ ) and complete planning 18% ( $\Delta r^2 = .18$ ,  $p < .01$ ; model 6,  $\beta = .48$ ). The most significant individual contribution was made by critical point planning (model 5:  $\beta = .53$ ,  $p < .01$ ) followed by complete

planning (model 6:  $\beta = .48$ ,  $p < .01$ ). Opportunistic strategy had no impact on success while reactive strategy explained 16% of the variance (model 4:  $\beta = -.40$ ,  $p < .01$ ). Hence, hypotheses 1 and 2 are accepted.

Hypotheses 1 and 2 relate to the relationship between strategy process characteristics and success. These results contribute toward entrepreneurship research by providing evidence on the impact of strategy process characteristics on success in a South African context. Highly structured, proactive, and goal committed comprehensive planning strategy characteristics resulted in success more so compared to opportunistic and reactive strategies. This confirms previous findings in a culturally and economically different environment (Van Gelderen et al., 2000, Krauss, 2003; Krauss et al, 2007) and suggests ubiquitous importance of comprehensive planning strategy characteristics in the entrepreneurial process. Critical point planning strategy characteristics cover fewer business aspects, are less long-term, and less strictly top- down organized than complete planning strategy characteristics. Thus, entrepreneurs who employ critical point planning strategy characteristics develop a less sophisticated mental approach of the entrepreneurial activities as well as of feedback signals in the environment than entrepreneurs using complete planning strategy characteristics.

Therefore, critical point planning strategy characteristics facilitate a positive business performance development, yet not to the same extent as complete planning strategy characteristics. Critical point planning should be the most preferred strategy used during the start-up phase of the business where the focus is on the most important business issues such as raising finance, securing a premises etc. Complete planning strategy can be used as the business grows into year five and six. At this stage the level of complexities within the business should prompt the entrepreneur to adopt a complete planning strategy.

Reactive strategy implies a passive approach in response to external demands and is the least preferred strategy. Previous research confirms a negative relationship between reactive strategy and success (Frese et al., 2002). Opportunistic strategy also had a negative impact on success. However, entrepreneurs employing this strategy can take advantage of scanning the environment for opportunities because of the high level of proactive behaviour. On the other hand, the lack of planning and goal orientation can have a negative impact. Low planning implies that the entrepreneur do not develop the opportunity fully.

**Table 3: STRATEGY PROCESS CHARACTERISTICS  
AND ENTREPRENEURIAL SUCCESS**

| <b>Variables</b>    | <b>Model 1</b> | <b>Model 2</b>   | <b>Model 3</b> | <b>Model 4</b> | <b>Model 5</b> | <b>Model 6</b> |
|---------------------|----------------|------------------|----------------|----------------|----------------|----------------|
| <b>Main effects</b> |                |                  |                |                |                |                |
| Environment         | -.05           | -.05             | -.04           | -.01           | .00            | .00            |
| Human Capital       |                | .12 <sup>†</sup> | .12            | .07            | .04            | .02            |
| Opportunistic       |                |                  | -.02           | -.04           | .03            | .05            |
| Reactive            |                |                  |                | -.40**         | -.29**         | -.22**         |
| Critical            |                |                  |                |                | .53**          | .30**          |
| Point               |                |                  |                |                |                | .48**          |
| Complete            |                |                  |                |                |                |                |

|                  |     |      |     |       |       |       |
|------------------|-----|------|-----|-------|-------|-------|
| R <sup>2</sup>   | .00 | .01† | .00 | .15   | .42   | .60   |
| Δ R <sup>2</sup> | .00 | .01  | .00 | .16** | .27** | .18** |
| F                | .04 | 2.78 | .09 | 5.42  | 15.17 | 21.67 |
| P                | .92 | .22  | 1   | .00** | .00** | .00** |

Note - Controls were only reported if it correlated with success in the study (n=192).

Standardised coefficients are reported. \*\*p < .01, \*p < .05, † p < .10



impact of EO on success, EO explained 60% of the variance ( $\Delta r^2 = .08$ ,  $p < .01$ ; model  $\beta = .37$ ). Innovation explained 38% of the variance ( $\Delta r^2 = .32$ ,  $p < .01$ ; model  $\beta = .61$ ). Personal initiative explained 47% of the variance ( $\Delta r^2 = .09$ ,  $p < .01$ ; model  $\beta = .33$ ). Risk taking did not contribute to success. Autonomy explained 4% of the variance ( $\Delta r^2 = .51$ ,  $p < .01$ ; model  $\beta = .25$ ). Achievement explained 2% of the variance ( $\Delta r^2 = .53$ ,  $p < .01$ ; model  $\beta = .18$ ). From these results it is evident that when examining the individual components of EO, innovation made the greater contribution to success. Hence, hypotheses 3 and 4 are accepted.

Hypothesis 3 and 4 relates to EO and its components. Overall, EO had a positive impact on success and these results are in line with previous findings (Krauss, 2003; Krauss et al, 2007, Callaghan and Venter, 2011). This study provides evidence that innovation, personal initiative and autonomy explained significant variance in success. Innovation is important, particularly relating to the introduction of new ideas with regards to products/services, technology and processes. Autonomy leads to express one's individuality in the workplace and self-contained decision-making is important. Personal initiative is an extension of proactiveness and is important in an entrepreneurial context. Hence, these findings are significant, particularly relating to emerging entrepreneurs.

In Uganda, Koop et al. (2000) found with a similar psychological EO construct (learning, innovative, and achievement orientation, and personal initiative) that entrepreneurs rated high on EO were more frequently successful (28%) than entrepreneurs rated low on EO (12%). Current findings suggest that entrepreneurship is fundamentally personal and theories should focus on entrepreneurs' cognitions and

actions (Gielniek, 2010).

## **8. WHAT DO THESE RESULTS IMPLICATE FOR ENTREPRENEURSHIP IN SOUTH AFRICA?**

It is pointed out in GEM 2011 that the total entrepreneurial activity is 9.1% which is significantly below the global average for developing economies. This is a major concern considering that the government has invested heavily in entrepreneurship through support programs. It is clear from the results that a reactive strategy should be the least preferred strategy. The two more successful strategies were complete planning and critical point planning. By studying psychological aspects of entrepreneurs it is possible to improve the position of such entrepreneurs, at least in terms of attitude and mindset. Therefore, these findings should be important for government funded programs to promote an entrepreneurial climate in South Africa.

Strategy process characteristics and EO provides new imperatives for

entrepreneurship education in South Africa, particularly in schools and universities. It is important to note that there are not many studies focussing on the transition from nascent to mature entrepreneurs which is critical to sustainable business development. With increasing dependence being placed on entrepreneurship as an alternative to create employment and economic development more emphasis should be placed on psychological predictors of success.

With high rates of unemployment in South Africa many young people should be trained with entrepreneurial skills and values. Many South Africans grow up without business experience or role models and therefore do not have confidence to start new enterprises. It is not surprising that many entrepreneurship training programs have been started by training providers. It is therefore important to understand also how higher education institutions as well as training providers present entrepreneurship programs as a result of the increase in demand for such programs. Preliminary evidence suggests widespread problems across the country with the implementation of entrepreneurship education programs in schools (Isaacs, Visser, Friedrich & Brijlal, 2007).

The introduction of EO provides a way to assess an individual-based entrepreneurial profile. In other studies (see Krauss's 2005 study) EO can be used in an organisational context to either distinguish between managers and business owners or to measure firm performance. Most of the entrepreneurial orientation studies conducted at the firm level tend to focus on established firms employing more than fifty employees where the influence of the owner has been reduced significantly as the organisational culture and structure became more complex. Hence, this study provides a useful application of an individual-based EO concept and entrepreneurial success.

This study has implications for mentors/ coaches, bankers and business consultants. Financiers and bankers usually receive business plans for financing a new start-up business which have been prepared by business consultants and entrepreneurs. Business plans could be enhanced through more elaborative and proactive planning in mentorship and business support programs. Poorly developed business plans could be re-aligned to relevant parameters of success as demonstrated in this study.

## **9. SHORTCOMINGS, LIMITATIONS AND STRENGTHS**

A problem of any study on business success is the success measures used. Five measures of success were used that reflect different aspects of what constitutes business success.

However, no truly objective measure of success such as an exact profit rate could be determined. This was largely due to the fact that business owners kept their official profit rates down low for tax reasons or owners are simply very sensitive to such issues. Another factor is that owners sometimes fail to keep proper books of account and therefore are not aware of what the exact profit rates are. Therefore, all in all the five measures of success is probably a reasonable good way to get around the problems associated with measuring business success.

As the study is a cross-sectional one, it is difficult to draw causal conclusions. Secondly, one must keep in mind that only entrepreneurs in the Western Cape participated in the study. Participants were generally better educated and unemployment is generally lower than the rural areas. Again findings cannot be generalised to entrepreneurs in other parts of Africa. This presents an opportunity for longitudinal study for the future to obtain a better measure in determining causality.

#### NOTES:

<sup>1</sup> Nascent entrepreneurs are defined as individuals who have been operating more at least three months.

<sup>2</sup> New entrepreneurs are defined as individuals who have been operating more than three months but less than three and a half years.

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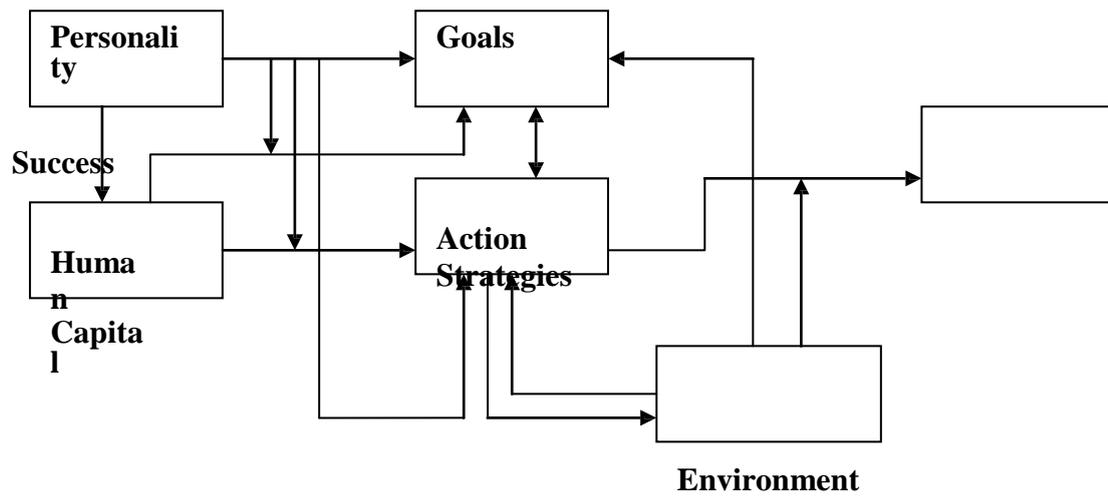
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## 11. ANNEXURE

**Figure 1:** Giessen Amsterdam Model of Success



**Table 1: Description of sample**

| <b>Variable</b>             | <b>N</b> | <b>%</b> | <b>M (years)</b> |
|-----------------------------|----------|----------|------------------|
| <b>Sex:</b>                 |          |          |                  |
| Male                        | 49       | 81.6     |                  |
| Female                      | 11       | 18.3     |                  |
| <b>Line of Business:</b>    |          |          |                  |
| Manufacturing               | 9        | 15       |                  |
| Construction                | 7        | 11.6     |                  |
| Trade/Retail                | 5        | 8.3      |                  |
| Service                     | 35       | 58.3     |                  |
| Other                       | 4        | 6.6      |                  |
| <b>Age of Business:</b>     |          |          |                  |
| 1 year old                  | 1        | 1.6      |                  |
| 2 to 5                      | 29       | 48.3     |                  |
| 6 to 10                     | 16       | 26.6     |                  |
| More than 10 years          | 14       | 23.3     |                  |
| <b>Number of Employees:</b> |          |          |                  |
| One                         | 6        | 10       |                  |
| 2 to 5                      | 14       | 23.3     |                  |
| 6 to 10                     | 14       | 23.3     |                  |
| More than 10 years          | 26       | 43.3     |                  |
| Average number of           |          |          | 15.17            |
| <b>Age of</b>               |          |          |                  |
| Min=                        | 24       |          |                  |
| Max=                        | 62       |          | 40.65            |
| <b>Working Hours:</b>       |          |          |                  |
| Less than 40 hours per week | 2        | 3.3      |                  |
| 40 to 50                    | 21       | 35.0     |                  |
| 51 to 60                    | 14       | 23.3     |                  |
| More than 60 hours per week | 23       | 38.3     |                  |
| <b>Training received:</b>   |          |          |                  |
| Yes                         | 23       | 38.3     |                  |
| No                          | 37       | 61.6     |                  |
| <b>Years of Education:</b>  |          |          |                  |
| Less than matric            | 12       | 20       |                  |
| Matric                      | 7        | 11.6     |                  |
| Diploma                     | 25       | 41.6     |                  |
| Degree                      | 13       | 21.6     |                  |
| Post graduate               | 3        | 5        |                  |

**Table 2: Criteria for Evaluating Strategy Process Characteristics**

| <b>Strategy</b>                    | <b>Goal orientati</b> | <b>Planning</b>    | <b>Knowled<br/>ge base</b> | <b>Proactiveness</b> | <b>Situatio<br/>n</b> |
|------------------------------------|-----------------------|--------------------|----------------------------|----------------------|-----------------------|
| <b>Complete<br/>planning</b>       | High                  | Long term          | Wide                       | High                 | Very low              |
| <b>Critical point<br/>planning</b> | Medium to<br>high     | Short to<br>medium | Moderate                   | Medium               | Moderat<br>e          |
| <b>Opportunistic</b>               | Low                   | Little             | Moderate                   | High                 | High                  |
| <b>Reactive</b>                    | Very low              | Very low           | Narrow                     | Very low             | Very<br>high          |

# STRATEGIC LACUNAE IN RURAL TECHNOLOGY SYSTEMS – CASE OF INDIAN SERICULTURE

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## Abstract

Agricultural extension services being provided predominantly by public agencies in the developing world have contributed to quantum jumps in food production in countries like India. However, these services have failed to eliminate persistent structural poverty among a significant proportion of the farmer households. Part I of the paper summarizes generic problems that have so far persisted in the provision of agricultural extension services in various developing countries (including India) as given in the published literature. It then brings out various elements of the reform processes that are being recommended and implemented in developing country programmes by various donor agencies, like the World bank, FAO, GTZ, etc.

Part II of the paper carries out in brief SWOT analyses of the Indian silk industry. It also highlights the organization and functions of the various infrastructure of the central and state government agencies providing extension services for the sericulture industry. It then critically examines as to how this infrastructure and services are geared to mitigate the weaknesses and threats and exploit the strengths and the opportunities of the sector. Based on this the framework of extension services reforms outlined in Part I of the paper is applied to formulate recommendations on the reorganization of this infrastructure for its better cost-efficiency and effectiveness.

**Keywords:** Rural technology systems, agricultural extension, sericulture, India, Central Silk Board, strategic lacunae.

## PART I: APPROPRIATE TECHNOLOGY DELIVERY SYSTEMS – A REVIEW

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### *Introduction*

India's population in 2011 was over 1.21 billion representing 17.31 per cent of world's population, increasing from 1.02 billion in 2001, a growth rate of 17.64 per cent (Census of India, 2012). Going by the current population figures and the growth rate in population, the population of India is expected to cross that of China by the year 2030 (Indiaonlinepages.com, 2012). While India's population growth rate has been more or less steady over the last four decades and even declined over the last decade, the working age (15 yrs. to 59 yrs.) population has increased from 227 million to 350 million to 380 million (that is, from 52% to 55% to 62%) between the years 1971, 1991, and 2000, respectively. (World Bank, 2002). It is estimated that currently about 50 per cent of India's population is below the age of 25 (Indiaonlinepages.com, 2012). According to a past estimate, India's overall ratio of rural poor to urban poor had increased from about 1.08 in the 1990 to 1.4 in the year 2000 (Datt and Ravallion, 2002).

Strategic investments are required for alleviation of poverty among the rural agricultural households. The direct anti-poverty programmes of the government may have temporarily helped the poor in getting food, etc., but have failed to raise their capacities or productive assets for earning higher incomes on sustained basis (Mukherjee, 1995).

In India the volume of investment has been increasing during the successive Five-Year Plan periods. But the use of increased capital has been considered to be either below potential and/or inefficient resulting in a commensurately low level of output – an indication of the slow rate of technological progress in the Indian agricultural and industrial economies [Thimmaiah, 1990]. It has indeed been shown that additional government spending on technological up-gradation in agriculture (research and extension) has the largest impact on agricultural productivity growth, and it also leads to large benefits for the rural poor (Fan et al, 1999).

Moreover, the agriculture sector in developing countries like India are faced with several additional challenges: maintaining the food security, declining cultivated area due to population pressure, declining agricultural productivity due to soil and natural resource degradation, and increasing competition in the globalised markets. One fundamental element in meeting the challenges of the structural poverty and resource pressure is therefore raising the productivity of the land through diffusion of new technologies. This transition from a resource-based to a technology-based system of agriculture places great importance on the technology generation and extension system, being the vital source and channel of transferring the new technologies to farmers (Umali and Schwartz, 1994).

The paper probes into the rural extension service scenario in India and presents a case study of sericulture sector in India to identify the strategic lacuna in rural technology delivery systems.

### **Managing Transfer of Technologies for use in Rural India – A Strategic Perspective**

Technology transfer could be considered to be the process by which technological innovation efforts initiated in different bodies and institutions fructify, get commercialized

and contribute to the national economy. This process is not an isolated one and cannot be managed as such. However, the management of the transfer of technologies including those that are developed for use in rural and semi-urban areas is an integral component of the management of the technological innovation process. This underlines the idea that forms of technological cooperation are no longer one way but involve a longer-term mutual benefit beyond a short-term commercial success. Andersen and Lundvall (1989) have pointed out that 'learning by interacting' through technological networks has become as important as the traditional 'learning by doing' as the source for new innovations.

In an earlier study, Roy (2001) had highlighted the importance of adopting the strategy of networking in the management of innovation of technologies suitable for adaptation and use in rural India. He has presented two case studies of technology development efforts for desalination of brackish and saline water for drinking and other purposes undertaken in a particular laboratory functioning under the Council of Scientific and Industrial Research (CSIR), namely, the Central Salt and Marine Chemicals Research Institute (CSMCRI), Bhavnagar. The case studies highlight that the issue of management of transfer of such technologies goes much beyond the immediate and should take into account a whole gamut of environmental factors including government legislations as well as a whole range of economic as well as socio-cultural parameters. Planning in such a framework should elevate from the piecemeal to the integrated, which necessitates the framing up of a policy perspective for the planning process for such technologies

### ***Problems in Delivery of Agricultural Extension Services***

In India, as in most developing countries, agricultural extension programmes of the central and provincial governments remain the dominant mechanisms for technological transfer and diffusion in agriculture. These programmes have no doubt led to quantum jumps in agricultural productivity in major cereal crops in irrigated agriculture regions. However, there have been a number of persistent problems with the agricultural extension system in India that have hampered its effectiveness in widespread agricultural development and alleviation of rural poverty. These problems, as brought out in literature have been summarised below:

#### ***Bureaucratic structure***

For example, it has been found (Macklin, 1992; Rivera, 1996; and Thimmaiah, 1990) that: (a) Extension bureaucracies have developed with top-heavy and top-down approach; (b) The functionaries have revealed a bias in favour of richer farmers, as against the socio-economically weak and deprived; (c) The households located in remote inaccessible villages are conveniently neglected by the field functionaries; (d) The infrastructure, taken as a whole, is inefficient, lacks adequate resources and is spread too thinly; (e) Uniformity of instructions, preventing any flexibility in adaptation and innovation at the local level, and therefore irrelevant in many cases; etc.

Reviewing agricultural extension systems in developing countries, Rivera et al (2000) found that “government extension systems are ineffective and inefficient and have been too monolithic, heavy handed, and controlling. There is concern that governments have created extension bureaucracies that are overstaffed, have little funding for operating expenses, use unsustainable approaches, and are overly supply-driven”.

### ***Underdeveloped Services Sector***

Agricultural production is closely tied to upstream factors (namely, supply of inputs, credit, technical knowledge and training, etc.) and downstream factors (storage, marketing information, access to markets, transport, processing, etc.) and depends on adequate access to resources, goods and services. Thus, agricultural production and product processing and the services that accompany them function interdependently in economic terms. A list of key agricultural services would include (Dresrüsse et al, 1998; GTZ, 2000):

- (i) Agricultural (technical) extension and information services,
- (ii) Education and training,
- (iii) Rural financing (saving, credit) and insurance,
- (iv) Provision of market information, marketing links, and market promotion,
- (v) Input delivery services for plant/animal production (seed/genetic material, fertilisers, pesticides, irrigation water, machines/implements, etc)
- (vi) Regulatory services (testing and certification of seeds and products, quality control),
- (vii) Provision of social and technical infrastructure (transport, test centers, common processing facilities, markets, etc).

However, the extension services in India covers only the technical information and training [(i) and (ii) above]. Training and Visit (T&V) model of extension system followed in India does not cover farm input and credit supply. The provision of other services has remained largely underdeveloped, being partly and uncoordinatedly covered by the trader, and a multiplicity of line departments of the government agencies (Macklin, 1992; Feder et al, 1999). Thus there exist systemic gaps in the comprehensive provisioning of various agricultural services, hampering growth in agricultural productivity.

### ***Fiscal deficits and Cost-inefficiency***

Many developing countries, including India, have for years found it difficult to make adequate resources available for agricultural extension and other related services. For some countries, recent structural adjustments have exacerbated the situation. In India, some 20% of village extension posts are vacant at any given time, mostly in the more remote areas. About 80% of the extension budget is spent on salaries, with minimal funds for extension operations (Farrington, 1994). Thus the extension infrastructure functions sub-optimally with low returns on the investments made for extension provisioning.

### **Extension Reforms**

Given the pivotal role they have in enhancing the productive potential of agricultural economy and for alleviation of rural poverty, agricultural extension and rural information and advisory services are likely to intensify in the foreseeable future. However, the above difficulties demand a reform of the present structure and approaches to agricultural extension. Issues regarding extension reform have been analysed in great detail by a number of experts. The related key issues, as brought out by a number of experts based on implemented reforms in a number of developed and developing countries are summarised below (Umali and Schwartz, 1994; Umali-Deininger, 1996; Rivera, 1996; Smith, 1997; FAO, 1997; Carney 1998; Feder et al, 1999):

### ***Improving Extension Management***

The World Bank sponsored Training and Visit (T&V) system of agricultural extension was implemented in 76 countries, including India (late 1970s). The system stressed that certain key features had to be preserved – professionalism, a single line of command, concentration of efforts, time bound work, field and farmer orientation, regular and continuous training, and close links with research. However, the T&V system too has not escaped some drawbacks, for example: unaffordable staff and operational budgets, neglect of poorer/remote farmers, dependence on other rural development programmes, neglect of beneficiary participation in planning and monitoring, and accountability to farmers. However, other reforms, discussed below, related to single commodity focus, concentration of efforts in more potential areas, decentralisation, and partnership with private, non-governmental and farmer organisations in delivery of services can effectively mitigate the said disadvantages with the T&V system.

### ***Decentralisation***

Decentralisation includes administrative and political-fiscal devolution of programmes, funding decisions, and staff accountability to local agencies. The effectiveness of decentralisation depends on the extent to which the central and provincial governments actually devolve fiscal and decision-making powers to the local democratically elected government. It also depends on the revenue raising abilities of the local government.

Effective decentralisation would help building local capacity for beneficiary participation in planning and monitoring, replacing the top-down approach and employing locally suited programmes. It also allows better coordination with other development programmes administered by local bodies.

### ***Single Commodity Focus***

Many public agencies (like the Central Silk Board, Rubber Board, Coffee Board, etc, in India) focus on one commercial or export crop, or one aspect of farming, such as dairying or livestock. The distinctive feature of the commodity specific extension lies in vertically integrating services for most of the components of the production and marketing systems, including research, input supply, running common facility and testing infrastructure, product marketing, credit, crop-insurance and minimum price assurance. The single commodity focus

can potentially achieve cost-effectiveness, through levies on product sales, or by factoring cost-recovery into product or input prices.

As an alternative model, agro-processing, or input supplying firms provide extension services to their farmer-clients to reduce input supply risks, reduce post harvest losses, and improve quality, quantity, and timeliness of output. Umali and Schwartz (1994) have documented a number of examples of farmers' associations and cooperative commodity ventures which provide extension services to its members.

### ***Paid Extension Services***

Some government agencies charge a fee for services to recover part of the costs. The government bears the remaining expenses for the services. This contributes to fiscal sustainability, accountability, and more professionalism and client-orientation. However, paid service extension is likely to exacerbate the generic problem of non-coverage of lower-income groups; this may also clash with political commitments for free services. Stratifying the client market by income level, and requiring progressively greater cost-sharing by higher income groups reduces both generic fiscal and liability problems, and releasing public resources for an 'extension safety net' targeted at low- to middle-income producers in priority areas. The for-fee extension services have been implemented in Mexico, New Zealand, UK, etc.

### ***Plural Service Provision – Redefining the Role of Public Agencies***

Involving a variety of stakeholders through contracts and collaborative partnerships for providing a range of extension services helps resolve problems of accountability or incentive to deliver quality service. One of the ways to get around this is subcontracting that 'gets around the institutional inefficiencies associated with public delivery' (Umali, 1997). Involving nonprofit NGOs may further improve responsiveness, cost-effectiveness, and equity in coverage.

Several principles underpin innovations in this category. First is delinking public funding from public delivery. Second, a key governance principle is to open and democratize extension control so that all stakeholders may express their perspectives and interests, and play appropriate roles in extension design, implementation, and evaluation.

Third, with pluralism the government recognizes that to meet diverse needs and conditions in the farming sector, it should invest more broadly in the whole agricultural knowledge and information system, rather than in public sector extension services alone.

Yet another problem arises in federal governments where both a central government ministry, agency or R&D body as well as the provincial public bodies have roles in development of the same sector. In such cases (in India a number of sectors, including agriculture, sericulture, etc. are in the Concurrent List of the Indian Constitution), there appear problems of overlapping functions, lack of coordination, and invariably loss of synergy of efforts and wastage of funds. In such cases, only technology generation and transfer to state bodies and training of trainers (drawn from the provincial extension agencies, NGOs, etc.) should be retained by the central agencies. Implied in each of the above

principles are significant role changes for government ministries/departments of agriculture or commodity specific agencies as they move away from service delivery toward providing an enabling policy environment, coordinating and facilitating the work of other players (emphasis original).

Recognizing that complete privatization of agricultural extension services is often not feasible, developing countries around the world have tried diverse innovative methods to address problems of fiscal sustainability and poor client orientation by integrating the private sector into extension systems. In such cases the government retains a role not only in (part) financing, but also in regulating extension providers. The methods include: *subcontracting* of extension services, *coupons* attached to agricultural bank loans committing a certain percentage of the loan for extension services, *collaborative arrangements* with the NGO and nonprofit sector including cooperative arrangements with universities, commodity boards, and commodity cooperatives or associations (Umali and Schwartz, 1994; FAO, 1997).

### ***Beneficiary participation and empowerment***

Evolving control by and participation of beneficiaries has positive effects for most of the generic problems of extension: (a) problem of scale and coverage is solved by grooming farmer leaders with appropriate local backgrounds, including women, who are able to perform many extension agent roles in a cost-effective manner; (b) complementary services are tuned more closely to farmer needs; (c) farmer dependence on external inputs is reduced; (d) fiscal sustainability and cost-effectiveness is improved through mobilizing local resources and using relevant methods that focus on expressed farmer needs; (e) interaction with technology generation is improved through feedback into the research system.

Some decentralized, cost-recovery, subcontracting, and cofinancing arrangements followed in a number of countries compulsorily require farmers' groups as beneficiary organizations. Elsewhere, farmers' associations organized on commodity lines actually provide extension services to their members (Umali-Deininger, 1996). Chamala and Shingi, (1997) have found that commodity-based farmers' organizations have been highly successful in the dairy industry in India. These groups pay great attention to monitoring and self-evaluation, have a significant impact in raising the level of trust, understanding, and links among the various actors and agencies involved in a rural situation.

### **Privatization**

The private sector has the incentive to provide information and services to 'better-off' commercial farmers and members of private associations for whom extension service delivery is profitable. Input suppliers also have strong incentives to provide advice on a range of crop and livestock activities. However, fully privatized extension is not economically feasible in regions with a large base of small-scale, subsistence farmers. In such circumstances, public sector finance remains essential, mixed with various cost-recovery, cofinancing, and other institutional partnership arrangements that are appropriate to the pace of structural and commercial changes in agriculture.

All privatization efforts report improvements in accountability, improved efficiency, cost-effectiveness, and reduced public sector costs and dependence on fiscal allocations.

Incentives exist for private providers of extension to maintain close links with knowledge generation agencies in order to have a marketable product. However, stratification and separate, publicly-funded targeted programs are needed to counter this risk of neglect of poorer and remote farmers.

In this context, a list of different ways in which an extension service organization may be financed has been given by van den Ban (2000) that offers a useful check-list for the public bodies to consider different financing option for agri-services. According to him an extension organization may be financed by:

1. A government service paid for by taxpayers;
2. A government service paid for by a levy on certain agricultural products;
3. A commercial company selling inputs to farmers and/or buying their products, which in its relationship with its customers also uses extension;
4. A farmers' association which pays for extension from its membership fees;
5. A farmers' association which is subsidized by the government;
6. A non-governmental organization (NGO) which is financed by donations from inside or outside the country and/or by commercial companies for public relations purposes;
7. An NGO which is financed by subsidies from or contracts with the government (either the national or a donor government);
8. A consulting firm which charges a fee from the farmers, who are its customers;
9. A publishing firm which sells agricultural journals or other publications to farmers;
10. Different combinations of the above. For example, it is possible for a government to pay the salaries of extension agents, whilst most of the operational expenses are covered by a farmers' association, or for a commercially-oriented cooperative or input-supply company to send a farm journal to its members/customers.

### Harnessing information technologies

Notwithstanding the importance of the more traditional extension methods, such as radio and television, group meetings, field days, demonstrations, and exchange visits, etc., great potential exists for innovative applications of the latest information and communication technologies (ICTs) to enhance extension delivery.

To harness its full potential requires considerable commitment, investments in information and telecommunication infrastructure, and some radical changes in perspective. One change is to lessen the reductionist, sectoral orientation in favor of a pluralist, cross-sectoral, systems perspective of a community – for example, aiming to meet a comprehensive set of information needs of a community, which may relate to health, taxation, long distance telephony, education of children, agriculture, agro-processing, storage, marketing and commerce, various government development schemes, etc. Community communication centers (variously called internet kiosks, telecottages, or, telecenters), exemplify the new partnerships emerging for local information access, communication, and education in rural areas. The ownership and financing arrangements of these telecenters are as diverse in nature as the types of communities they serve, and the type of services they offer.

Experiences and recommendations brought from various parts of the world to a FAO sponsored workshop (FAO, 2000) indicated (among others) the following important considerations necessary for success and sustainability of telecenters:

- (a) Broad based and equitable access to ICTs requires as a pre-condition processes of decentralisation, democratization, good governance considerations honouring citizens' right to information, etc.
- (b) A high level "championing" of ICTs education and capacity building of the various stakeholders is required.
- (c) Financial sustainability of the telecenters requires investments for both, the supply of diverse information needed by the community as well as for stimulating demand for information through user education and ICT-capacity building.
- (d) The employment of particular ICT technology as well as the information content should be decided with community participation, taking into account their language, culture, information requirements, etc.
- (e) Beyond physical access, information needs to be timely, retrievable, and easily utilized by a broad range of users, accessible in their own language and consistent with their values.

In India, a number of donor driven (UNDP, ITU, etc) and government sponsored programmes for diffusion of telecenters have been initiated covering many provinces (Shanmugavelan, 2000). Thus a great opportunity exists for the various agricultural services providing agencies to harness the ICT's potential for meeting their objectives more effectively.

### *The Indian extension scenario*

After following the T&V system of agriculture extension during the period of late 1970s to mid 1990s, and recognizing some of the inherent drawbacks in its efficacies, Indian government launched a reform drive, and the key elements of the reformed extension model currently being implemented in India (World Bank, 1998, as revealed by Ashok Kumar Seth) are being excerpted below:

- Decentralization of decision-making. Much of the decision-making will be done at the district level, which, in the Indian administrative situation, is an important element.
- Developing district level strategic extension plans based on participatory techniques in which farmers are involved in assessing their needs, and then building the extension messages around those.
- Getting farmers organized into groups, ultimately into associations. Then looking for a sharing of responsibilities, so that certain functions which have been undertaken by village extension workers, for example, can be taken over by a farmer representative.

- Finding ways and means of withdrawing government's involvement in input supply activity- so that these activities can be taken over by the private sector, which is beginning to be the case already anyway.
- Bringing the private sector as a partner into the overall scheme and recognizing they play an important role in technology transfer.
- Allowing much more direct interaction between farmer organizations and the private sector without necessarily having it mediated through a public institution.
- Focusing on upgrading the skills of public employees so that they can increasingly play the role of specialist rather than being involved so heavily in much more frontline extension delivery, which can be shared with the farmers and their organizations.

‘Some obstacles remain in the government public institutions – they are well entrenched, they are in a position of power, and they see themselves losing out in this process a little bit. Not only is it the fear of loss, but the fear of change as well, and therefore this whole process of education about their new role is crucial.

‘The role of a new Coordinating Committees constituted is to provide policy guidance, to coordinate, to promote concepts that are being put into the projects, and to educate. The membership of that committee will include both public as well as private parties and NGOs... Working alongside them will be a Technology Dissemination Unit, which will not only coordinate implementation of project activities, but also take an important role in promoting project concerns and educating all the stakeholders.

‘Among the innovative ideas of how to bring about this change is to create, at the district level, a body that will take responsibility for the overall planning and management of extension programs. The governing board of a district's program will include a cross section of persons from public institutions, research, extension, NGOs, and farmer organizations. This body would be registered as a non-profit making society so that the rules of bureaucracy would not apply as strictly.

‘In order to overcome the issue of budget getting lost at the state level, the funds will be allocated directly to that society without going through the state budget. But the fact remains that the society will still be dependent upon public funds. Ultimately the goal is, that if the society is doing a good job of developing the work program and responding to the needs of farmers, it may well be in a position to generate some revenues through the services it is providing. But perhaps more important, is that it will be freer to develop partnerships with the private sector. And some cost sharing elements may begin to emerge through that process.

‘It is a new experiment, therefore it needs to show that it works and is able to effectively deliver on farmers' needs. Once the credibility of the approach and the system are established, then it will become easier to begin to generate revenue through services provided as well as through developing partnerships with other agencies. But public funding will obviously continue to play a very important role even in the long-term. For a very long time to come in the Indian context, a majority of the budget will need to come from government institutions’.

## **PART II: THE CASE OF SERICULTURE SECTOR IN INDIA**

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### *Sericulture: An 'Appropriate' Technology for poverty alleviation*

Sericulture has the potential to play a dominant role in uplifting the economic conditions of the rural poor. As an agro-based industry, sericulture fits very well in India's rural structure, where agriculture continues to be the main occupation and where farmers are constrained by increasing fragmentation of the landholding. This is because of the following unique features associated with sericulture technology [Patel, 1992, Panda, 1993]:

- (a) Labour intensive, capable of developing into a subsidiary family-level enterprise for big as well small landholders (the latter being important for subsistence farmers);
- (b) Low investment and quick returns (30-35 day cycle in silkworm rearing);
- (c) A huge domestic and international market for raw silk.
  
- (d) The technology is not new to most regions in India, with silk weaving traditions dating back to ancient times and spread over many states; Most Indian states have an established infrastructure and extension support services for promotion of the sector.
  
- (e) Mulberry plant, central to cocoon production technology can grow in almost all types of lands and even in rainfed conditions;

Recognizing the significance of sericulture, the central and state governments in India has taken a series of developmental measures to diffuse the technology far and wide in India through successive Plan periods and also through specific donor-funded projects.

## What is Sericulture?

The term 'sericulture' includes the following economic activities: (i) raising food plants (in the form of mulberry plantation<sup>45</sup>) on farms for feeding the silk-worms; (ii) production of disease-free silkworm layings (dfls), eggs, or seeds – a specialized commercial activity undertaken by central and state government agencies and (only in four states) by private licensed seed producers; (iii) indoor rearing of silk-worms till the stage they produce silk cocoons (about 30 day egg-to-cocoon cycle), and (iv) sale of silk cocoons produced. Silk industry, however, consists of (a) sericulture, (b) post-cocoon technology – reeling, spinning and twisting of silk yarn from the cocoons; and (c) weaving, printing and dyeing of silk cloth.

Table 1 presents the details of the commercially exploited sericigenous insects of the world and their food plants:

**Table 1: Commercially Exploited Sericigenous Insects of the World**

| Common Name             | Scientific Name          | Origin |
|-------------------------|--------------------------|--------|
| Mulberry Silkworm       | <i>Bombyx mori</i>       | China  |
| Oak Tasar Silkworm      | <i>Antheraea yamamai</i> | Japan  |
| Oak Tasar Silkworm      | <i>Antheraea pernyi</i>  | China  |
| Oak Tasar Silkworm      | <i>Antheraea compta</i>  | India  |
| Oak Tasar Silkworm      | <i>Antheraea frithi</i>  | India  |
| Oak Tasar Silkworm      | <i>Antheraea proylei</i> | India  |
| Tropical Tasar Silkworm | <i>Antheraea mylitta</i> | India  |

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<sup>45</sup> India has the distinction of being the only country in the world which produces all four types of silk, namely, mulberry, tasar, muga and eri types. However, the mulberry silk, the commonly known silk, dominates the silk industry in India as well as internationally. The relative contribution in national raw silk production from mulberry, eri, tasar, and muga types of silk, respectively, are 92%, 5%, 2%, and less than 1% (out of total 15236 MT in 1998). For the purpose of this paper, the terms silk and sericulture refer only to mulberry type silk.

|               |                          |       |
|---------------|--------------------------|-------|
| Muga Silkworm | <i>Antheraea assama</i>  | India |
| Eri Silkworm  | <i>Philosamia ricini</i> | India |

Source: Central Silk Board, India (<http://www.csb.gov.in/silk-sericulture/silk/>)

In the sections below, a brief analysis of the strengths, weaknesses, opportunities and threats (SWOT) that characterize the Indian silk industry has been carried out. The chief characteristics of the organization and functions of the various infrastructural facilities of the central and state government agencies providing extension services for the sericulture industry are then briefly highlighted. It then critically examines as to how this infrastructure and services are geared to mitigate the weaknesses and threats and exploit the strengths and the opportunities of the sector. Based on this the framework of extension services reforms outlined in Part I of the paper is applied to formulate recommendations on the reorganization of this infrastructure for its better cost-efficiency and effectiveness.

The importance of sericulture for India can also be ascertained from the following Table (Table 2) that lists out the top 10 cocoons (reelable) producers in the world (2005 figures) – India figures at Number 2 in this Table.

**Table 2: Top Ten Cocoons (Reelable) Producers - 2005**

| Country                    | Production (Int \$1000)* | Production (1000 KG)** |
|----------------------------|--------------------------|------------------------|
| People's Republic of China | 978,013                  | 290,003                |
| India                      | 259,679                  | 77,000                 |
| Uzbekistan                 | 57,332                   | 17,000                 |
| Brazil                     | 37,097                   | 11,000                 |

|  |        |       |
|--|--------|-------|
| Iran                                     | 20,235 | 6,088 |
| Thailand                                 | 16,862 | 5,000 |
| Vietnam                                  | 10,117 | 3,000 |
| Democratic People's<br>Republic of Korea | 5,059  | 1,500 |
| Romania                                  | 3,372  | 1000  |
| Japan                                    | 2,023  | 600   |

\* Official FAO Figures, production in INT \$1000 has been calculated based on 1999-2000 international prices

\*\* Calculated Figures

Source: <http://en.wikipedia.org/wiki/Silk>

A perusal of Table 3 that the raw silk production figures from India with data from the year 1980-81 to 2010-11, it is clear that the production of raw silk in India has been rising steadily.

**Table 3: Raw Silk Production (MT) in India from 1980-81 to 2010-11**

| Year    | Mulberry | Tasar | Eri | Muga | Total |
|---------|----------|-------|-----|------|-------|
| 1980-81 | 4593     | 265   | 135 | 48   | 5041  |
| 1981-82 | 4801     | 257   | 147 | 44   | 5249  |
| 1982-83 | 5214     | 284   | 213 | 37   | 5748  |
| 1983-84 | 5681     | 418   | 270 | 54   | 6423  |
| 1984-85 | 6895     | 444   | 279 | 55   | 7673  |
| 1985-86 | 7029     | 464   | 352 | 52   | 7897  |
| 1986-87 | 7905     | 548   | 392 | 55   | 8900  |
| 1987-88 | 8455     | 463   | 522 | 58   | 9498  |
| 1988-89 | 9683     | 358   | 565 | 45   | 10651 |
| 1989-90 | 10805    | 465   | 589 | 57   | 11916 |

|            |       |      |      |     |       |
|------------|-------|------|------|-----|-------|
| 1990-91    | 11486 | 380  | 624  | 70  | 12560 |
| 1991-92    | 10658 | 329  | 704  | 72  | 11763 |
| 1992-93    | 13000 | 382  | 726  | 60  | 14166 |
| 1993-94    | 12550 | 299  | 766  | 76  | 13691 |
| 1994-95    | 13450 | 257  | 798  | 74  | 14579 |
| 1995-96    | 12884 | 194  | 745  | 86  | 13909 |
| 1996-97    | 12954 | 235  | 864  | 73  | 14126 |
| 1997-98    | 14048 | 312  | 814  | 62  | 15236 |
| 1998-99    | 14260 | 242  | 970  | 72  | 15544 |
| 1999-00    | 13944 | 211  | 974  | 85  | 15214 |
| 2000-01    | 14432 | 237  | 1089 | 99  | 15857 |
| 2001-02    | 15842 | 249  | 1160 | 100 | 17351 |
| 2002-03    | 14617 | 284  | 1316 | 102 | 16319 |
| 2003-04    | 13970 | 315  | 1352 | 105 | 15742 |
| 2004-05    | 14620 | 322  | 1448 | 110 | 16500 |
| 2005-06    | 15445 | 308  | 1442 | 110 | 17305 |
| 2006-07    | 16525 | 350  | 1485 | 115 | 18475 |
| 2007-08    | 16245 | 424  | 1530 | 117 | 18320 |
| 2008-09    | 15610 | 603  | 2038 | 119 | 18370 |
| 2009-10    | 16322 | 803  | 2460 | 105 | 19690 |
| 2010-11(P) | 16957 | 1166 | 2760 | 122 | 21005 |

Sources: Annual Reports of Central Silk Board, India for the Financial Years 1980-81 to 2010-11

However, as per 2009 figures (Table 4), India's contribution to world raw silk production was only 15.5% as compared to China's 81.89% (Varmudy, 2011). It is also clear from the following Table that Mulberry silk forms the overwhelming bulk of all raw silk production throughout the world. It is for this very reason that in this paper the analysis of silk and sericulture refers only to mulberry silk.

**Table 4: World Raw Silk Production (MT) 2009**

| Country           | Mulberry<br>Raw Silk | Per Cent in<br>Total | Total Raw<br>Silk | Per Cent<br>Share of<br>Country |
|-------------------|----------------------|----------------------|-------------------|---------------------------------|
| China             | 84,000               | 80.77                | 104,000           | 81.89                           |
| India             | 16,322               | 82.89                | 19,690            | 15.50                           |
| Brazil            | 811                  | 100                  | 811               | 0.65                            |
| Uzbekistan        | 750                  | 100                  | 750               | 0.59                            |
| Thailand          | 665                  | 100                  | 665               | 0.53                            |
| Vietnam           | 550                  | 100                  | 550               | 0.44                            |
| Korea<br>Republic | 135                  | 100                  | 135               | 0.10                            |
| Japan             | 90                   | 100                  | 90                | 0.07                            |
| Others            | 304                  | 100                  | 304               | 0.23                            |
| Total             | 103,637              | 81.60                | 126,995           | 100                             |

Source: [http://www.ffymag.com/admin/issuepdf/17-22\\_silk\\_dec11.pdf](http://www.ffymag.com/admin/issuepdf/17-22_silk_dec11.pdf)

## SWOT Analysis of Indian Silk Industry

**Strengths of the Indian silk Industry:** (a) A large and expanding domestic production base spread over almost all the states exists in India. India's production of raw silk has grown from 11,486 MT in 1991, about 15,000 MT in 2000-2001, and about 21000 MT in 2010-2011 (Table 3) – currently being number two in the world, next only to China. (b) In spite of stiff competition from mainly China in the high volume, low priced every day wear, readymade markets, India has the ability to offer the high value, low volume items of craft value and having a great variety that have markets in US, West Europe and almost all other continents. (c) About 85% of national raw silk production is consumed by the domestic *sari* market – offering a steady and assured demand to domestic sericulture and acting as a buffer to international fluctuations in silk industry.

**Weaknesses of the Indian silk industry:** major weaknesses lie in the sub-optimality and skewed productivities in various regions, and a partial dependence on import of the superior bivoltine silk yarn used as warp in the silk weaving industry and export of silk cloth and made ups. In this respect the following is noteworthy: (a) **Skewedness in contribution by different practicing states:** Whereas mulberry sericulture is practiced in 21 states in India, Karnataka alone contributed nearly 46.4% in 2009-09 and 45.1% in 2009-10 (Table 5). The five traditional states (Karnataka, AP, TN, WB, and J&K) together contribute 96.4% (in 2008-09) 96.7% (in 2009-10) to the total national raw silk production. The mulberry raw silk production in the country is largely multi-bivoltine cross-breed type in contrast to the superior, bivoltine raw silk, which is traded in international markets.

(b) **Skewedness in contribution by different practicing districts in each State:** The picture of skewedness in the proportion of contribution by states is also repeated in different sub-regions within each state. Statistics (not given here) shows that whereas sericulture is practiced in 20 to 40 districts in each state, 70-90 % contribution comes from 3 to 8 districts only.

(c) **Skewedness in Farm Productivity:** The cocoon productivity per unit area of mulberry plantation varies very widely among states – from 10 kg/ha in Nagaland to 651 kg/ha in AP (at the gross state level). The three leading states in high productivity are Andhra Pradesh (651 kg/ha), West Bengal (646 kg/ha), and Tamil Nadu (601 kg/ha). What is distressing is that as many as 12 states have unit area productivity falling below 100 kg/ha. These field achievements may be contrasted with the Chinese achievement of 2000-2200 kg/ha.

(d) **Weaknesses in the non-farm areas:** Half of the cocoon reeling sector (which produces silk yarn) capacity in India is still dominated by the traditional *charkha* devices, which are characterized by lower quality and productivity in raw silk. At the national level there appears to be an acute shortage of warp quality raw silk (which is partly met from imports) obtainable from the improved cottage basin machines (constituting only 40% of the national reeling capacity at present) and multi-end reeling machines (10%). India is losing precious

foreign exchange by importing raw silk, yarn and fabrics (ref: Table 6 below) to cope up with this weakness.

**Table 5: State-Wise Mulberry Raw Silk Production in India (MT)**

|                                    | 2008-09 | 2010-11 |
|------------------------------------|---------|---------|
| <b>A (Traditional States)</b>      |         |         |
| <b>Karnataka</b>                   | 7238    | 7360    |
| <b>Andhra Pradesh (AP)</b>         | 4492    | 5119    |
| <b>Tamil Nadu (TN)</b>             | 1411    | 1233    |
| <b>West Bengal (WB)</b>            | 1809    | 1865    |
| <b>Jammu and Kashmir (J&amp;K)</b> | 102     | 110     |
| <b>Sub-Total (A)</b>               | 15052   | 15687   |
| <b>B (Non-Traditional States)</b>  |         |         |
| <b>Assam</b>                       | 15      | 16      |
| <b>Arunachal Pradesh</b>           | 4       | 3       |
| <b>Bihar</b>                       | 9       | 16      |
| <b>Chhattisgarh</b>                | 5       | 9.7     |
| <b>Himachal Pradesh</b>            | 22      | 20      |
| <b>Jharkhand</b>                   | 1       | 3       |
| <b>Kerala</b>                      | 20      | 22      |
| <b>Madhya Pradesh</b>              | 96      | 95      |
| <b>Maharashtra</b>                 | 200     | 218     |
| <b>Manipur</b>                     | 96      | 101.5   |
| <b>Mizoram</b>                     | 9       | 16.5    |
| <b>Meghalaya</b>                   | 2       | 5.2     |
| <b>Nagaland</b>                    | 2       | 3.4     |
| <b>Orissa</b>                      | 4       | 8.8     |
| <b>Punjab</b>                      | 4       | 5.3     |
| <b>Rajasthan</b>                   | 1       | 1.55    |
| <b>Sikkim</b>                      | 1       | 3       |
| <b>Tripura</b>                     | 8       | 12.5    |
| <b>Uttarakhand</b>                 | 17      | 14      |
| <b>Uttar Pradesh</b>               | 42      | 60.45   |
| <b>Sub-Total (B)</b>               | 558     | 635     |
| <b>Grand Total (A+B)</b>           | 15,610  | 16,322  |

Source: [http://www.ffymag.com/admin/issuepdf/17-22\\_silk\\_dec11.pdf](http://www.ffymag.com/admin/issuepdf/17-22_silk_dec11.pdf)

**Table 6: India's Import of Raw Silk, Yarn and Fabrics (in Million \$)**

| Items | April-March 2010-11 | April-March 2011-12 |
|-------|---------------------|---------------------|
|-------|---------------------|---------------------|

|                           |        |        |
|---------------------------|--------|--------|
| Raw Silk                  | 203.60 | 232.05 |
| Natural Silk Yarn         | 46.29  | 28.09  |
| Silk Fabrics and Made-Ups | 134.03 | 79.93  |
| Total                     | 383.92 | 340.07 |

Source: Central Silk Board, India (<http://www.csb.gov.in/statistics/silk-exports-and-imports/total-import/>)

***Opportunities:*** A supply-short environment of raw silk, increasing demand world-wide, and a relatively developed domestic industry offer great opportunities for growth and expansion of this agro-based industry, and therefore for poverty alleviation in potential areas. This is evidenced from the following trends: (a) The world's total raw silk production had declined from 95,980 MT in 1993 to 86,812 MT in 1996, and increased over the last decade to 126,995 MT in 2009. There exists an aggregated shortfall in raw silk supply against demand at international level. In the domestic market, the demand exceeds production met by imports from China. (b) The demand for silk goods has been increasing steadily around the world depending on the region of the globe. Apart from the fashionable items of higher value, there has been a great spurt in the production and demand of silk garments of everyday use, sports wear, home textiles, knit-wears, etc., all around the world. (c) The production of raw silk in China has been quite stagnant over the years. (d) *India's export* of silk goods contributes significantly to the country's coffers as per Table 7 shown below. However, the latest trend shows that there has been a slight decline in India's export earnings in the year 2011-12 as compared to the previous year.

**Table 7: Total Export Earnings of Silk Items (in Million \$)**

| Item-Wise Export   | April-March 2010-11 | April-March 2011-12 |
|--------------------|---------------------|---------------------|
| Natural Silk Yarn  | 8.65                | 3.76                |
| Fabrics, Made-Ups  | 457.38              | 194.28              |
| Readymade Garments | 149.98              | 264.42              |
| Silk Carpet        | 4.63                | 4.01                |
| Silk Waste         | 7.93                | 10.39               |
| Total              | 628.57              | 476.86              |

Source: Central Silk Board, India (<http://www.csb.gov.in/statistics/silk-exports-and-imports/total-export-earnings/>)

***Threats to the sericulture/silk industry*** are posed from (a) the post-WTO, liberalized trade regimes whereby cheap raw silk may be dumped in India from countries like China, Brazil, Korea, rendering sericulture unattractive for the farmers; (b) the increasing fiscal deficits

being faced by the central and state government promotional agencies threatening the fiscal sustainability their support infrastructure and programmes and services.

## **Public Infrastructure for Research and Extension in Sericulture**

Sericulture forms part of the Concurrent List of the Indian Constitution. Public infrastructure for promotion of sericulture in India, therefore, exists at two levels: a central agency, namely, the Central Silk Board (CSB), currently functioning under the central Ministry of Textiles; and the state level Directorates of Sericulture<sup>46</sup>.

### THE CENTRAL SILK BOARD INFRASTRUCTURE

The Central Silk Board was established by an Act of Parliament in 1948 to take control of the then fledgling silk industry. However, with increasing Plan allocations, and particularly after a World Bank aided project (1989-96), its infrastructure has undergone a massive expansion. Currently, it has the following units under its direct fold:

#### I. RESEARCH, REGIONAL RESEARCH & RESEARCH EXTENSION

##### *On-Farm (pre-cocoon) Technologies*

- Research Institutes (6): Mulberry Silk-3, Tasar-1, Muga-1, Eri-1.
- Regional Research Stations (21): Mulberry Silk-12, Tasar-8, Muga & Eri-1.
- Research Extension Centres (62): Mulberry Silk-46, Tasar-10, Muga & Eri-6.
- Sericulture Training Schools (13)
- Extension Centres (46)

##### *Off-Farm (post-cocoon) Technologies*

- Research Institute (1)
- Demonstration/Training/Service Centres (21) (Mulberry Silk-12, Tasar-9, Muga & Eri-1)
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#### II. MASS PRODUCTION OF SILK-WORM EGGS (SEEDS)

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<sup>46</sup> In states where sericulture production levels are low, the promotional functions have been put under the Ministries/Departments of Textiles, Small Scale Industries, Handlooms, etc. (like in Gujarat, Punjab, Himachal Pradesh, etc.)

- Basic (parental) Seed Production Farms (57) – Mulberry Silk-worm (26), Tasar Silk-worm (23), Muga & Eri Silk-worm (8)
- Commercial Seed Production Centres (27) – M Mulberry Silk-worm Seeds (24), Tasar (nil), Muga & Eri (3)

### III. INDUSTRIAL SERVICES

- Silk Conditioning & Testing Houses (5)
- Eco-Testing Laboratories (4)
- (Export) Certification Centres (2)
- Common Facility Centre (1)

#### THE STATE GOVERNMENT INFRASTRUCTURE

Karnataka and Andhra Pradesh are the only states having their own R&D Institutes for sericulture. The main infrastructure common under each of the state governments (except a few) includes:

- Commercial Silkworm Seed Production Centres;
- Extension Centres for transfer of new technologies, input (eggs, disinfectants) supplies;
- Reeling Training and Farmer Training Schools
- Market Infrastructure for government monitored sale of cocoon and raw silk.

#### **Organization of Infrastructure and Services *versus* Sector Characteristics**

As shown in Table 5, The sericulture development in India has been highly skewed. Whereas five states – Karnataka, Tamil Nadu, West Bengal, Andhra Pradesh, and Jammu and Kashmir (called the traditional states, or TS) – contribute overwhelmingly to the national raw silk production, another 19 states (called the non-traditional states, or NTS) together contribute only a fraction of the total production.

Increasing Plan allocations and the emphasis laid on the sector, and particularly during the implementation of a World Bank (and Swedish Devpt. Corpn.) aided project (1989 –1996), the extension infrastructure of the Central Silk Board and the state government directorates expanded rapidly. The infrastructure added included, extension centers, centers for mass production of parental and commercial grade silkworm seeds, technology demonstration and training centers. This also strengthened the CSB research institutes and the regional research stations located in different agro-ecological regions of the country. It is noteworthy that the extension infrastructure under Central Silk Board was added in parallel to that already existing or added infrastructure under the state govts. The spatial distribution of

the infrastructure included all the TS and the NTS. The premise was that after an initial and decisive fillip is given for growth and expansion of sericulture, the CSB infrastructure would be taken over by the state governments. However, none of the states have actually taken over the CSB extension infrastructure (barring that the TS have taken over some of the extension centers), as the concerned directorates/departments in the states did not have an assured fund allocation for the maintenance of the same.

The above developments have placed the CSB and the state government directorates in a mix of advantageous and disadvantageous situations from the point of view of the growth of sericulture and the financial sustainability of the extension infrastructure. These have been summarized below:

- (a) *CSB well placed for technology generation/transfer and advisory role for states:* CSB is well equipped for formulation of unified national strategies / policies and Plans, providing consultancy for state-level strategy formulation, providing coordination required for implementation of various state-, national-, and international - level programmes; It also has an adequate research infrastructure and has developed a good stock of technology packages (and capacity for transferring them to the states) for higher productivity and quality in the pre- and post-cocoon areas for all regions and seasons. These capabilities are auger well to exploit the strengths and opportunities presented by the international and national silk industries.
- (b) *Rapid Area expansion but poor linkages:* Consequent to the World Bank project, CSB, through its own efforts and extension infrastructure, rapidly expanded mulberry area plantation in the country (by 25,000 ha). However, after an initial expansion, there was a substantial uprooting of mulberry plantations, particularly in all of the NT states. This was mainly due to the facts that:
  - (i) The capacity of the state governments to carry on the extension work after the withdrawal of the CSB was not developed.
  - (ii) The up-market post-cocoon industrial sector, like reeling, weaving, which place demand on the products of sericulture and therefore encourage its growth, was highly underdevelopment, if not absent, in the new areas;
  - (iii) The new reeling machines developed by CSB and sought to be diffused among entrepreneurs (through the technology demonstration and training centers) for providing up-market demand for sericulture, required high investments and year round supply of raw material to be viable.
  - (iv) The newer sericulture areas in the non-traditional states were mostly rain-fed areas with the farmers mostly practicing subsistence agriculture, and therefore not in a position to invest in the building and equipment prescribed under the technology package. The regional research stations located in these regions also failed to develop appropriate silkworm rearing equipment which would suit the peculiar characteristics of the local entrepreneurs. This has resulted in comparatively low productivities, seriously hampered growth of sericulture and the up-market reeling sector, and contributed to the highly skewed development of sericulture in the country as a whole (Mathur, 1995).

- (c) Poor Financial Viability of Commercial Silkworm Seed Production Centers: The commercial silkworm seed production centers (24 in no.) were established to give an initial fillip to the sericulture sector by producing quality disease free eggs of the developed superior races of silkworm, which form important inputs to sericulture. These centers were mandated to be required to maintain strict financial discipline by recovering its costs (including establishment, operating, and depreciation of plant and building) through the price mechanism. However, each of these centers has so far been running in a net loss due to typically high establishment expenditures and poor financial discipline associated with public infrastructure.
- (d) Duplication of activities between CSB and state directorates: From a comparative geographical mapping of support infrastructure spread over different states and running under CSB and the state level directorates, and from the comments received from the state govt. directorates of sericulture on the utility of CSB infrastructure located in their respective states (particularly in traditional states), it was found that there exists heavy duplication of extension activities – including production and sale of commercial silkworm seeds, technology diffusion, training of farmers and reelers, etc.
- (e) Undue Centralised Bureaucracy and Control within CSB: The CSB's Institutions, regional stations, and centers (numbering about 400 in total and spread throughout the country) presently operate in an environment of undue control and very limited freedom. For example, for every item of purchase or expenditure beyond Rs.2,000 (till 1999) an Institute or its sub-unit has to seek scrutiny and sanction of CSB HQ. Similarly, all new as well as ongoing research projects being carried out in all the Institutes and stations of CSB are reviewed quarterly by the Headquarters in spite of the respective Research Advisory bodies. The pre-cocoon research and extension, the post-cocoon research and extension, and the silkworm seed production organisations of CSB also function in vertically compartmentalized controls – resulting in lack of integrated development of various components of the sericulture sector of any region. This invariably results in bureaucratic delays, lack of flexibility required to meet the local conditions, and poor coordination with the state directorates and other local authorities and R&D laboratories.
- (f) Poor Sustainability and Development of Partnerships: Serious efforts for development of partnerships in the provision of extension services, and privatization of mass production of silkworm seeds, have not been undertaken by either the CSB or the state directorates. In most of the states (except in some of the traditional states like Karnataka, TN, and AP), even nurseries for the mulberry plants and the young-age silkworms (*chawki farms*) are owned and run by the state govt. directorates. This has resulted in ever-increasing demands on budgets, very high proportion of establishment expenditures (as much as 70-80%), and serious concerns on sustainability of the support infrastructure.

## **Recommendations on Reform of Extension Infrastructure and Services**

The framework and principles that underpin the reform processes of extension services, brought out in Part I of the paper are utilized below to formulate recommendations that are likely to remedy the set of lacunae in skewed development of sericulture in the country, as well as in the organization of the extension infrastructure and services under the CSB and the state government directorates.

- (a) Improving Extension Management: There is need for better feedback from the field to the research system in case of dry-land regions inhabited by poor farmers, so that proper efforts are made for development of more suitable technology packages. This would lead to better productivities, wider diffusion of sericulture, and help development of up-market reeling sector. Also suitable reeling machines need to be developed which require lower investments and adoptable by poorer entrepreneurs in these regions.
- (b) Decentralisation: The CSB needs to devolve administrative and financial authority to its regional centers and research Institutes. It must allow the regional offices to develop partnerships with state-level governments departments, district and village bodies, NGOs, farmer organisations, entrepreneurs, etc to draw up integrated plans for development of forward and backward linkages. It must also bring about a better role clarity in its functions, namely, (i) It must confine itself to technology generation and transfer to state level functionaries, NGOs, and private entrepreneurs, and divest the infrastructure and extension activities meant for end-beneficiaries. It must also have better coordination and role division with the state sericulture directorates, which are in a better position to understand the local conditions and coordination with the local actors.
- (c) Privatization: A substantial proportion (50-60%) of silkworm seed production is being carried out by licensed producers in the traditional states. These producers also extend credit and quality control facilities to the sericulturists. However, the balance demand is met by commercial silkworm seed production centers under the CSB and the state directorates. These are inherently unviable financially due to bureaucratic controls and high establishment costs. The production activity (if not the entire infrastructure) must be transferred to private entrepreneurs under suitable incentive schemes and contractual arrangements, so as to maintain quality and production levels, etc. Suitable partnerships can also be developed with them for rendering extension services, etc.
- (d) Plural Service Provision and Beneficiary participation: So far the mentioned central and state agencies have more or less a monopoly in the provision of extension services. Efforts must be made to develop alternative service providers from the NGO, private and cooperative sectors. Sericulture cooperative societies must be encouraged and trained for commercial operation of nurseries, providing extension to their members (perhaps with part financing by the govt.). Synergistic partnerships must be forged with the regional rural banks (and micro-finance institutions), who are spearheading the current movement in formation of credit related self-help groups, for provision of credit and insurance

facilities to sericulture cooperative societies. The private commercial silkworm seed and disinfectant manufacturers and NGOs may be provided incentives and partial financing for providing various extension services.

- (e) *Harnessing information technologies:* The CSB and state governments must take advantage of the recent spread of telecenters movement in India to develop alternative modes of extension delivery. Telecenters covering information services for sericulture and/or reeling/weaving sectors may be given initial support in the form of capital, information content etc. Internet links to dedicated websites of the government and manufacturers associations can help get instant information on market prices of cocoons/raw silk in urban centers, technology packages, supply of inputs, traders, etc. These possibilities, however have to be explored in conjunction with recommendations on privatization, developing plural service provision, etc.

### *Conclusions*

Utilizing the published literature, efforts have been made to synthesize in one place various developments in extension reforms in various parts of the developing world and as recommended by the International donor agencies like, the World bank, FAO, GTZ, etc. This has resulted in a set of underpinning principles that must guide the reform process for extension services in any agro-sector. Attempt has been made to apply this framework to sericulture sector in India, taking into account an earlier available SWOT analysis for this sector. It is hoped that the set of recommendations formulated for sericulture, along with the reform principles enunciated, would be useful for applications to other agro-based sectors which are facing more or less similar problems.

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# **LINKING THE EFFECT OF INTELLECTUAL CAPITAL ON BANK PERFORMANCE IN MALAYSIA**

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## **ABSTRACT**

The purpose of this paper is to investigate the state of intellectual capital among the banks in Malaysia, and to examine its consequent effect on bank business performance. The study employed the quantitative approach through a survey instrument design. The population was the branch managers of domestic banks in Malaysia, and they were chosen because these banks have extensive branch networks, even in rural areas. Data were collected using questionnaires, and the constructs used were developed from prior research and previously tested for reliability. A total of 1844 questionnaires were mailed to the respondents, and 260 usable responses were received, giving a response rate of 14.09 percent. Descriptive statistics were used to analyze the characteristics of the respondents including frequency, mean, and measures of reliability, while multivariate technique employed was multiple regressions. The findings revealed that significant relationships exist between human and structural capitals and bank performance, while no significant relationship was found between relational capital and bank performance. These findings may be of help to bank managers to utilize more of their internal resources to compete and survive the intensely competitive business environment.

Keywords: Banks, bank managers, intellectual capital, performance

## **INTRODUCTION**

In the era of globalization, the competitive business environment of the banking industry is expected to intensify dramatically. Similarly, the banking industry in Malaysia has seen noticeable changes in its business environment as a result of financial liberalization and consolidation, economic transformation, and more discerning consumers. These developments have been reinforced by technological advancements which allowed the developments of new and more efficient delivery and processing channels as well as more innovative products and services. Against this backdrop, a number of challenges have emerged. Foremost, is the intensified competitive pressures faced by the banks not only from other banks but also from non-traditional competitors such as non-bank financial intermediaries as well as the capital markets which are offering similar products and services. In addition, the ever changing and sophisticated needs of the customers have intensified the

already highly competitive market. These customers have become more educated, better informed and more internalized as the Malaysian economy becomes more and more knowledge based. As a result, banks are required to adopt innovative strategies to keep pace with the changing environment and customers' requirements (Al Swidi & Mahmood, 2011). In addition, banks must manage their resources well, and these can easily be achieved by mobilizing their intangible assets in the form of knowledge, technological skills and experience, and strategic capabilities to achieve performance advantages (Thacker & Hanscombe, 2003). Knowledge can also be used to create business value, achieve business goals, and develop greater value from the core competencies of the business (Tiwana, 2001).

There is also a growing recognition of the significant of intellectual capital as a form of knowledge in getting and sustaining competitive advantage (Edvinssone & Malone, 1997; Stewart, 1997). Intellectual capital (IC) is a critical firm resource that includes intangible assets such as knowledge, information, intellectual property, and employees' experiences, commitments or capabilities (Barney, 2002). Past research has demonstrated the positive association between intellectual capital and organizational performance (Kamath, 2007; Tovstiga & Tulugurova, 2007; Bontis, 1998). Intellectual capital is also viewed as a key determine of business performance of knowledge intensive industries. However, the banking sector which is often being characterized as a highly knowledge industry has been given less attention by those researchers (Mavridis, 2004). Moreover, relatively little is known on how components of IC individually and collectively affect a bank's performance. Realizing its importance in providing a competitive edge and contributing towards better performance, this research was undertaken to focus on the effect of the IC and its components on the performance of banks in Malaysia. Thus, following research questions were formulated:

1. What is the state of intellectual capital among banks in Malaysia?
2. What is the relationship between intellectual capital and bank performance in Malaysia?

## **LITERATURE REVIEW**

According to Roos and Roos (1997) and Bontis, Keow and Richardson (2002), intellectual capital (IC) is the sum of the 'hidden' assets of a firm not fully captured on the balance sheets. It is the knowledge, experience, expertise, and associated intangible assets such as trademarks, patents and brand rather than the firm's hard physical and financial capital. However, this asset is the most important source for sustaining the firm's competitive advantage. Studies have also concluded that most firms have three forms of IC embedded in their people, structures, and customers. These are human capital, structural capital, and relational capital (Stewart, 2001; Grace, 2006; Curado & Bontis, 2007; De Castro & Saez, 2008; Hsu & Fang, 2009). Human capital is the knowledge, skills, experience, intuition, and attitudes of the workforce (Stewart, 1997), and can be enhanced by increasing the capacity of

each worker (Teo, 1998). Structural capital includes patents, copyrights, and information-age assets such as data bases and software. These are organizational and technological elements that pursue integration and coordination within the firm (De Castro & Saez, 2008). Relational capital is the value of a firm's relationships with the people with whom it does business. It is the likelihood that these people will keep doing business with the firm (Stewart, 1997; Edvinsson & Malone, 1997).

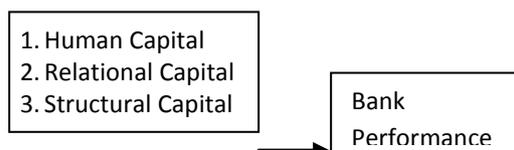
Past studies have found that IC may enhance firm performance (Bontis, Keow & Richardson, 2002; De Castro & Saez, 2008). Firms with more human, relational and structural capital should be able to better enact their environment as well as respond and adapt to environmental changes (Gold, Malhotra & Segars, 2001). Besides, it increases a firm's information processing capacity through the creation of lateral relations and investments in information system (Reeds, 2000; Youndt, 1998). These bolster the firm's performances. From a human capital perspective, an increase in employee skills, knowledge and abilities most likely translates into increased performance because it generates new ideas and techniques that can be embodied in production equipment and processes (Saa-Perez & Garcia-Falcon, 2002; Reeds, 2000). It may also initiate changes in production and service delivery method, and improves the link between employees, managers, and customers. In relational capital, the knowledge tied up in relationships among employees, customers, suppliers, alliance partners, and trade associations may lead to process innovation and better problem solving. These tend to increase production and service delivery efficiencies, thereby reducing organizational costs (Marinova, 2004; Lee & Choi, 2003; Reeds, 2000; Youndt, 1998). Structural capital can improve firm performance by reducing its operational costs. Structural capital embedded in routines, procedures, and information systems can help filter information as well as direct and simplify information processing, and organizational sense making, all of which should diminish organizational costs (Reeds, 2000; Garvin, 1993). Based on these discussions, the following hypotheses were formulated:

H1: There is significant relationship between human capital and performance of banks in Malaysia.

H2: There is significant relationship between relational capital and performance of banks in Malaysia.

H3: There is significant relationship between structural capital and performance of banks in Malaysia.

Figure 1 below illustrates the proposed model that hypothesized the relationships between the dimensions of intellectual capital and bank performance.



**Figure 1: Intellectual capital – performance relationship framework**

The proposed framework is supported by the resource-based theory which seeks to identify factors that explain why firms are able to gain and sustain a competitive advantage. The theory asserts that a firm's performance is mainly driven by a unique set of firm resources that are difficult to imitate, rare and valuable. As long as competitors are unable to buy or imitate or substitute the resources controlled by a firm, these resources will continue to be a source of competitive advantage (Barney, 2002). Thus, intellectual capital as a form of unique intangible resources may be a value driver of a bank in achieving competitive advantage.

## **METHODOLOGY**

### **Data Collection Procedures**

Data were collected by means of a mail survey questionnaire completed by branch managers of the domestic banks. Although there are limitations in the use of questionnaire based research, the benefits arising from cost savings, convenience, anonymity, and reduced interview bias seem to outweigh the limitations. The sampling frame was obtained from the Association of Bank Malaysia (ABM). Branch managers were chosen because they are responsible for strategic decisions at the corporate and the strategic business unit levels, and therefore they are in the best position to describe the various organizational characteristics of their banks (Dwairi, 2004; Abd Wahid, 2011). Furthermore, this study focused more on those responsible for the execution of strategy, not the top management who formulated it.

A total of 1844 branch managers from the sampling frame were sent with the questionnaires and 360 completed questionnaires were returned with a response rate of 14.09 percent. This response rate is acceptable considering the fact that mail survey response rates of over 30 percent are rare, and are frequently as low as 5 to 10 percent (Alreck & Settle, 1995). Similar studies by Mahmood and Abd Rahman (2007), and Mahmood and Idris (2003) revealed response rates of 13.8 percent and 24.0 percent respectively. Fifteen returned questionnaires were later detected as outliers and were deleted from the data. There is also an issue of non response bias which is pertinent to a survey method of data collection. Non response bias exists when there are significant differences between the answers of those who have

responded and those who do not respond. However, since the number of responses received was more than the minimum sample size of 322 as suggested by Saunders, Lewis and Thornhill (2007), a test of non-response was not appropriate.

## Measures and Instrumentation

This study proposed three definitional dimensions of intellectual capital, namely; human capital, relational capital, and structural capital. The instruments for these dimensions were adapted from a previous research by Youndt (1998). Although the instruments were previously tested for validity and reliability, some of the questions were slightly modified to make them more relevant to the purpose of this study. The questionnaire of the three dimensions each consists of five items and uses a five point Likert scale on which the respondents have to indicate the extent to which the items represent their bank's strategy.

For measuring performance, a subjective approach developed by Dess and Robinson (1984) and Gupta and Govindaran (1984) was adopted. Past research has indicated that subjective measures can be consistent with objective measures, and were a reliable means for measuring performance (Dess & Robinson, 1984; Pearce, Robbins & Robinson, 1984; Venkatraman & Ramanujam, 1987). Moreover, subjective measures may increase the response rate where objective data are either not available or respondents not willing to reveal the information. The questionnaire consists of three items, and respondents were asked to rank the performance of their bank for the past three years based on a Likert type scale ranging from much lower (1) to much higher (5). A three year average performance measure was used in order to reduce the decision variation impact of the bank's annual financial report (Covin, Slevin & Heeley, 2001).

## Reliability and Validity

A reliability test was conducted to determine the internal consistency of the measures used. Table 1 below shows all the constructs have Cronbach Alpha values of more than 0.8 which is higher than that recommended by Hair et al. (2006).

**Table 1: Reliability scores for Intellectual capital constructs**

| Construct          | No. of items | Alpha value |
|--------------------|--------------|-------------|
| Human capital      | 5            | .899        |
| Relational capital | 5            | .843        |
| Structural capital | 5            | .811        |

The constructs were also validated through factor analysis. Before performing factor analysis, the suitability of data was assessed through two tests; Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, and Bartlett's Test of Sphericity. The KMO has to be more than 0.50 and Bartlett's Test of Sphericity has to be significant. For factor analysis, principle component analysis and Varimax rotation were performed. It was suggested that items that had factor loadings lower than 0.30 should be eliminated (Hair et al., 2006).

The KMO and Bartlett's test of Sphericity for intellectual capital constructs were examined. The KMO result of above 0.90 and Bartlett's test of sphericity at  $p < 0.001$  assessed the data factorable, and thus factor analysis was performed. The varimax rotated principal component factor analysis applied has revealed a three factor structure that explained 69.04 percent of the variance. Only factor loadings of at least 0.30 were included in the final analysis. Thus, no items were deleted. Eigenvalues for each factor were greater than 1.0. The three factors were designated as human capital (F2), relational capital (F1) and structural capital (F3) (See Table 2 below).

**Table 2: Factor analysis for intellectual capital**

| Items   | Factor1 | Factor2 | Factor3 |
|---|---------|---------|---------|
| Our employees are skilled at collaborating with each other to diagnose and solve problems (6)                             | .734    |         |         |
| Our employees share information and learn from one another (7)  | .786    |         |         |
| Our employees interact and exchange ideas with people from different areas of the bank (8)                                | .791    |         |         |
| Our employees have the capacity to partner with customers, suppliers, alliance partners to develop business solutions (9) | .784    |         |         |
| Our employees apply knowledge from one area of the bank to problems and opportunities that                                | .781    |         |         |

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|  |        |       |       |
|--|--------|-------|-------|
| arise in another (10)  |        |       |       |
| Our employees are high skilled (1)   | .647   |       |       |
| Our employees are widely considered the best in our industry (2)   | .810   |       |       |
| Our employees are creative and bright (3)  | .591   |       |       |
| Our employees are experts in their particular jobs and functions (4)   | .497   |       |       |
| Our employees are able to develop new ideas and knowledge (5)  | .448   |       |       |
| Our bank uses patents and licenses as a way to store knowledge (11)  | .691   |       |       |
| Our bank's knowledge is mostly contained in manuals, data base (12)  | .814   |       |       |
| Our bank's culture contains valuable ideas, ways of doing business (13)  | .887   |       |       |
| Our bank embeds much of the knowledge and information in structures, systems, and processes (14)                       | .755   |       |       |
| Our bank protects vital knowledge and information to prevent loss in the event key people leaves the organization (15) | .649   |       |       |
| Eigen values   | 8.244  | 1.111 | 1.002 |
| Percentage of variance explained   | 54.958 | 7.409 | 6.677 |

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The data for performance were also assessed via the KMO test of sampling adequacy with a value of 0.719 and Bartlett's test for sphericity with  $p < 0.001$ . The results assessed the data factorable and factor analysis was performed. The varimax rotated principal component factor analysis has resulted in a single factor loading that explained 76.84 percent of the

variance. Only loadings of at least 0.30 were included in the factor. Thus, all the three items were loaded on a single factor, and is displayed in Table 3 below.

**Table 3: Factor analysis for performance**

| No | Item  | Loading |
|----|---|---------|
| 1. | Overall business performance for the past three years                 | .845    |
| 2. | Overall performance relative to competitors for the past three years  | .896    |
| 3. | Overall sales growth relative to competitors for the past three years | .888    |
|    | Eigen value   | 2.305   |
|    | Percentage of variance explained                                      | 76.84   |
|    | KMO: .719   |         |
|    | Bartlett's Test of Sphericity: Sig p< 0.001                           |         |

## RESULTS AND DISCUSSIONS

### Characteristics of the respondents

The findings in Table 4 below revealed that nearly 72 percent of bank managers holding the position at branch levels were male. This concurs with previous studies of Mahmood and Abd Rahman (2007), Mahmood, Abd Rahman and Rahman (2003), and Mahmood (2000) that shows the banking industry in Malaysia was still male dominated at the higher managerial level. The ethnic groups were diversely distributed, and this reflects that of the country with a majority of them Malays contributing 53.3 percent, followed by the Chinese with 27.0 percent, Indians (12.5%) and others (7.2%).

Most of the respondents possessed at least an undergraduate degree with 70 percent of them while another 18 percent were diploma holders. There were also 23 respondents who had post graduate degree including two of them with doctorate qualification. This shows the importance of academic credentials for managerial positions in the Malaysian banking industry. In terms of experience, about 80 percent of the respondents had been in the banking industry for more than 10 years with 25.5 percent of them having been in the industry for more than 20 years. None of the respondents had less than 5 years working experience with the banks. This again shows the importance of banking experience as a criterion for a managerial position in the industry. Thus it is expected that the respondents were all well-

versed and knowledgeable in their jobs. Another important finding is that more than 75 percent of the respondents had been in the branch managerial position for less than 10 years and only 7.8 percent had been holding the post longer than 15 years. A possible reason for the low longevity of bank managers at branch levels is that long experienced bank managers would normally be pulled back to the head office for more responsible positions (Mahmood, 2000).

The findings also revealed that about 70 percent of the respondents' banks had less than 25 employees. Only 30 of the banks had 25 or more staff employed at the branch levels. Therefore these findings show that the size of bank branch in Malaysia as measured by the number of employees is relatively small. This is expected as most banking operations today are fully computerized and the application of e-banking demands less employees.

**Table 4: Characteristics of Respondents**

|                     |                              | Frequency | Percentage |
|---------------------|------------------------------|-----------|------------|
| Gender              | Male                         | 248       | 71.9       |
|                     | Female                       | 97        | 28.1       |
| Ethnicity           | Malay                        | 184       | 53.3       |
|                     | Chinese                      | 93        | 27.0       |
|                     | Indians                      | 43        | 12.5       |
|                     | Others                       | 25        | 7.2        |
| Qualification       | SPM/STPM                     | 36        | 10.4       |
|                     | Diploma                      | 62        | 18.0       |
|                     | Bachelor degree              | 224       | 64.9       |
|                     | Master                       | 21        | 6.1        |
|                     | Doctorate                    | 2         | 0.6        |
| Managerial position | Less than 5                  | 145       | 42.0       |
|                     | 5 and less than 10           | 117       | 33.9       |
|                     | 10 and less than 15          | 56        | 16.3       |
|                     | 15 and above                 | 27        | 7.8        |
| Banking experience  | More than 5 but less than 10 | 69        | 20.0       |
|                     | 10 and above but             | 114       | 33.0       |

|                 |                               |     |      |
|-----------------|-------------------------------|-----|------|
|                 | less than 15                  | 74  | 21.5 |
|                 | 15 and above but less than 20 | 88  | 25.5 |
|                 | 20 and above                  |     |      |
| Number of staff | More than 10 but less than 15 | 97  | 28.2 |
|                 |                               | 87  | 25.2 |
|                 | 15 and above but less than 20 | 55  | 15.9 |
|                 | 20 and above but less than 25 | 106 | 30.7 |
|                 | 25 and above                  |     |      |

### State of Intellectual Capital

The means of all items of the intellectual capital are shown in Table 5 below. All the items were measured on a five point scale. The mean scores for the items of human capital ranged from 3.91 to 4.06 giving an overall mean of 3.99. According to Mahmood and Abd Rahman (2007) and Mahmood (2005), a mean rating value of 4.21 and above for a 5-point scale is considered 'very high', while a mean value of between 4.20 and 3.41 is considered as 'high'. This shows that the level of human capital among the bankers was relatively high. The mean scores of relational capital ranged from 3.87 to 4.05, while those of structural capital ranged from 3.94 to 4.28. The findings indicate that banks in Malaysia operate in a situation of a relatively high intellectual capital. Thus, intellectual capital has now being viewed as a crucial approach to continuous growth and strategic renewal, a strategy even more useful in hostile business environment like the banking industry.

**Table 5: Means of Intellectual Capital**

| No.                  | Item   | Mean | SD   |
|----------------------|--|------|------|
| <b>Human Capital</b> |  |      |      |
| 1.                   | Our employees are creative and bright                            | 4.06 | .858 |
| 2.                   | Our employees are highly skilled                                 | 4.04 | .765 |
| 3.                   | Our employees are experts in their particular jobs and functions | 3.99 | .755 |
| 4.                   | Our employees are widely considered the best in the industry     | 3.97 | .773 |

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|                           |  |      |      |
|---------------------------|--|------|------|
| 5.                        | Our employees are able to develop new ideas and knowledge  | 3.91 | .789 |
| <b>Relational Capital</b> |  |      |      |
| 6.                        | Our employees share information and learn from one another   | 4.05 | .751 |
| 7.                        | Our employees apply knowledge from one area of the bank to problems and opportunities that arise in another          | 3.94 | .801 |
| 8.                        | Our employees have the capacity to partner with customers, suppliers, alliance partners to develop business solution | 3.93 | .765 |
| 9.                        | Our employees are skilled at collaborating with each other to diagnose and solve problems                            | 3.91 | .789 |
| 10.                       | Our employees interact and exchange ideas with people from different areas of the bank                               | 3.87 | .835 |
| <b>Structural Capital</b> |  |      |      |
| 11.                       | Our bank's culture contains valuable ideas and ways of doing business  | 4.28 | .836 |
| 12.                       | Our bank embeds much of its knowledge and information in structures, systems and processes                           | 4.09 | .741 |
| 13.                       | Our bank's knowledge is mostly contained in manuals, data base   | 4.08 | .736 |
| 14.                       | Our bank protects vital knowledge and information to prevent loss in the event key people leaves the organization    | 4.08 | .785 |
| 15.                       | Our bank uses patents and licenses as a way to store knowledge   | 3.94 | .801 |

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## Testing of Hypotheses

Multiple regression analysis was used to test the relationships between intellectual capital constructs and performance of banks, and the results are shown in Table 6 below. The overall model was significant ( $F = 59.278$ ,  $p < .001$ ) accounting for 34.3 percent of the variance in bank performance. When all the three constructs were considered simultaneously, only two constructs showed significant positive relationship to performance, that is human capital ( $B = .394$ ,  $p < .05$ ), and structural capital ( $B = .351$ ,  $p < .001$ ). However, relational capital had shown no significant relationship with performance. Thus, only Hypotheses 1 and 3 are supported. The results are in contrast to most of major findings of previous studies (For example, Sharabani & Jawad, 2010; De Castro & Saez, 2008; Bontis, Keow & Richardson, 2002), which concluded that all constructs of IC contribute significantly to organizational performance. Only Seleim and Ashour (2007) did not find any relational capital influence to firm performance. The relational capital encompasses knowledge embedded within the bank in its relationship with the customers. The relatively small size of most banks in this study may have an impact on the relationships with the customers that it would not facilitate direct exchange and sharing of information. There is also a possibility that the advent of information technology in the banking system necessitates the less demand in face to face interactions with the customers.

**Table 6: Regressions of human, relational and structural capitals and performance**

|                    | B     | Beta  | T     | Sig    |
|--------------------|-------|-------|-------|--------|
| Human Capital      | .483  | .394  | 2.060 | .040*  |
| Relational Capital | -.099 | -.080 | -.415 | .679   |
| Structural Capital | .402  | .351  | 6.551 | .000** |

\*Sig.  $p < .05$ , \*\* $p < .001$

## CONCLUSION

This study was conducted to investigate the level of intellectual capital (IC) among the banks and to test the relationship between constructs of intellectual capital and bank performance in Malaysia. Fierce competition has created tremendous pressure for the banks to be more efficiently managed and to utilize more of their internal resources to achieve sustainable operations. The findings of this study provide support that banks in Malaysia are not only having high intellectual capital intensity but they also contribute to sustaining their competitive advantage and improve business performance. This proves that intellectually oriented culture could strengthen performance. These findings may be of help to the management of banks to intensify initiatives to encourage better understanding on the significance of IC which boosts a bank's competitive position and superior performance. This helps the banks to be more responsive to the intensively competitive and ever changing market environment.

While this study represents an important step in the intellectual capital and banking literature, it also raises some questions that need to be addressed by future research. First, this study was cross-sectional, and it does not allow the determination of cause and effect or the impact of changes overtime. Future research should involve collecting data on a longitudinal basis in order to draw causal inferences. Second, the study also relies on self reports of bank managers. Data sometimes tend to be more positive and may not always be completely truthful. Future studies should investigate the implementation of IC activities within these banks in an attempt to more directly measure the effective of those being implemented. Third, only three dimensions were incorporated in defining the IC for the study. Other factors or attributes that are important for fostering IC should also be included. Finally, future research should refine the methodology used in the study to provide further insights. Nevertheless, this study has generated insights that increase a fund of knowledge that will contribute positively to bankers and also policy makers in Malaysia.

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# **INNOVATING SUCCESSFULLY BY CHANGING PERSPECTIVES ON NEW PRODUCT DEVELOPMENT PROCEEDINGS**

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## **SUMMARY**

This investigation examines sustainable new product development (NPD) in development networks. Many NPD projects fail because internal and external development partners are not satisfied with the results, and development is often not conducted market-oriented. The service-dominant logic (S-D logic) has created a new perspective for NPD. Using S-D logic, it is possible to conduct market-orientated NPD and to improve it in the direction of sustainability. A framework is developed, in which the new perspective is assigned to NPD. By taking an S-D logic perspective, the development partners become more aware of the importance of information, they exchange information more effectively, and co-create development results to a greater extent. The developed framework helps to conduct more market-orientated and sustainable NPD. The case study of a real SME-University consortia shows that NPD is conducted more successfully using the developed concept. The framework contributes to innovation management.

Key words: New product development, market orientation, co-creating, sustainability, flow of information, service-dominant logic

## Introduction

The development of new products is a great chance for SME to distinguish themselves from competitors. Sustainable new product development (NPD), regarding to the relationship of development partners and its output, might lead to sustainable company growth (Vargo, Akaka, 2009; Pujari, 2003). At the same time, new product development represents a major challenge for companies (Cooper, 1983). These challenges lie in coordinating the participants involved in the development process, exchanging information between participants and aligning product development and customer demands (Cooper, 1983). The challenges become even greater when new high-tech products are to be developed and when multiple external development partners are involved, claiming sustainable products. In this case, the need for information exchange and the difficulty of realizing it in an optimal manner increases (Cooper, 2008; Rindfleisch, Moorman, 2003). A functional information exchange between many participants is necessary to develop products which will ultimately be demanded by customers paying reinforced attention to sustainable issues (Souder, 1988). For a so-called market orientation (Day, 1994), the integration of different skills is needed within the development network. Accordingly, the different value chain partners, interacting in the development process, can even be seen as bidirectional customers (Vargo et al., 2010; Vargo, Lusch, 2011). However, innovations often fail because of non-market-oriented development (Cooper, 1983; Cooper, Kleinschmidt, 1994; Ernst, 2002; Griffin, Hauser, 1993). For innovation management it is therefore necessary to put focus of NPD on market orientation and sustainability. Furthermore, it is necessary to improve the development partners' approach to information exchange and, with that, the possible fulfillment of customer wishes (Parry, Song, 1994; Griffin et al., 2009).

Service-dominant logic (S-D logic) is a widely recognized perspective on economic exchange processes, which can also give new impulses to innovation research (Vargo, Lusch 2004, Vargo et al., 2010). This approach enables the NPD process and the proceedings of the engaged stakeholder to be moved toward market-orientation and sustainability (Vargo et al., 2010; Vargo, Lusch, 2011). S-D logic makes it possible to move the success factor, i.e. creating value for the customer, to the centre of focus during NPD by enhancing the development partners understanding of how to sustainably collaborate in development networks. The present investigation sheds light on NPD proceedings with regard to market-oriented co-creation of value. Furthermore, actions can be derived which support NPD regarding efficient communication and feedback (Hoyer et al., 2010; Griffin, Hauser, 1993, Rindfleisch, Moorman, 2001; Vargo et al., 2010).

### **S-D logic as new perspective for sustainable NPD**

A change in perspective on collaboration procedures can open up capabilities for successful innovation management (Cooper, 2008; Rindfleisch, Moorman, 2001). Taking the ideas presented by Vargo, the effect of a change of perspective can be illustrated through an example: Man has desired to fly since the beginning of time, just as birds fly. Initially people tried to achieve the necessary ascending force by putting plumage around their arms and flapping them up and down. However, this arm flapping was unsuccessful. Later, humans changed their perspective and began looking at birds wings with regard to their function as airfoil instead of their movement. This change in thinking led to a change in behavior. Humans were now able to build cabins with airfoils, which subsequently enabled man to fly (Vargo, 2009). Such a change is also possible for NPD through S-D logic (Rindfleisch, Moorman, 2001; Lusch et al., 2006; Lusch, 2011; Vargo et al., 2010).

In the most-cited article in the Journal of Marketing since 2000, Vargo and Lusch describe S-D

logic as new perspective for marketing and economical exchange processes (Vargo, Lusch, 2004). The fundamental idea is that service is the central contribution of all products and related transactions. Vargo and Lusch define service as the “application of specialized competences” and services as immaterial goods (Vargo, Lusch, 2008a, p. 26). Service generates services, which form value for the customer. With this perspective S-D logic allows not only a change in perspective on general exchange processes, but also on the relationship and way of interaction of development partnerships.

Vargo and Lusch defined ten foundational premises which constitute S-D logic and reflect the new perspective.

**Table 1** Service-dominant logic foundational premise modifications and additions

| FPs  | Original foundational premise  | Modified/new foundational premise  | Comment/explanation   |
|------|--|--|---|
| FP1  | The application of specialized skill(s) and knowledge is the fundamental unit of exchange  | <b>Service</b> is the fundamental <b>basis</b> of exchange                           | The application of operant resources (knowledge and skills), “service,” as defined in S-D logic, is the basis for all exchange. Service is exchanged for service  |
| FP2  | Indirect exchange masks the fundamental unit of exchange   | Indirect exchange masks the fundamental <b>basis</b> of exchange                     | Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent  |
| FP3  | Goods are a distribution mechanism for service provision   | Goods are a distribution mechanism for service provision                             | Goods (both durable and non-durable) derive their value through use – the service they provide  |
| FP4  | Knowledge is the fundamental source of competitive advantage   | <b>Operant resources</b> are the fundamental source of competitive advantage         | The comparative ability to cause desired change drives competition  |
| FP5  | All economies are services economies   | All economies are <b>service</b> economies   | Service (singular) is only now becoming more apparent with increased specialization and outsourcing   |
| FP6  | The customer is always a co-producer   | The customer is always a <b>co-creator</b> of value                                  | Implies value creation is interactional   |
| FP7  | The enterprise can only make value propositions  | The enterprise <b>cannot deliver value, but</b> only offer value propositions        | Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but can not create and/or deliver value independently |
| FP8  | A service-centered view is customer oriented and relational  | A service-centered view is <b>inherently</b> customer oriented and relational        | Because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational   |
| FP9  | Organizations exist to integrate and transform microspecialized competences into complex services that are demanded in the marketplace | <b>All social and economic actors are resource integrators</b>                       | Implies the context of value creation is networks of networks (resource integrators)  |
| FP10 |  | <b>Value is always uniquely and phenomenologically determined by the beneficiary</b> | Value is idiosyncratic, experiential, contextual, and meaning laden   |

Words in bold type represent changes in wording from the original FPs (Vargo and Lusch 2004a, 2006).

**Fig. 1: Foundational premises of S-D logic with explanations, Source: Vargo, Lusch, 2008b.**

## Sustainable development and NPD networks

Sustainable development can be defined as that which “meets the needs of the present without compromising the ability of future generations to meet their own needs’ (UNWCED, 1987). Sustainable behavior and environmental responsiveness is viewed more and more as an opportunity for companies. Benefits that arise from acting sustainable are increased sales, improved cus-

customer feedback, closeness to customers, enhanced competitiveness and improved corporate image (Pujari et al., 2003). NPD in a sustainable way should not only consider the product development itself, but also the relationships within development networks from (Pujari, 2006). Success in this case is not only depending on the products demanded by end customers, but also the long term oriented behavior of the development partners co-creating value in NPD

process (Penaloza, Mish, 2011). This will also have influence on information exchange practices and engagement of network partners in co-creation practices. S-D logic supports the ideas of sustainable NPD proceedings and integrates core aspects of sustainability to economic exchanges processes within NPD networks (Pujari, 2006; Vargo, Lusch, 2008).

### **S-D logic and NPD**

The S-D logic premises one, three and six through nine are considered to be particularly relevant for sustainable NPD, because they relate directly to the proceedings of the innovation process. This includes the relationships, flow of information and behavior of the development partners. The mentioned premises will be introduced below (Cooper, 1983; Vargo, Lusch, 2008b)

The first premise expresses that service is the driving force behind every exchange. Service has to be understood as the application of knowledge and skills for the benefit of another party. Service is exchanged for service and builds the core of economic transactional relationships (Vargo, 2004, 2008).

The ninth premise expresses similar aspects and maintains that all economic and social actors are resource integrators. The term “resource integrator” describes adding economic value by combining production factors with knowledge and skills to generate output. Externally drawn production factors are combined with internal resources and are placed at the disposal of other actors, or resource integrators, disposal. These resource integrators are connected to the network while simultaneously being involved in other networks. Therefore, the creation of value

takes place in networks of networks (Vargo et al., 2010; Vargo, Lusch, 2011).

According to the third premise of S-D logic, goods are considered as distribution mechanisms of service. This classification is based on the insight that goods develop their value through the customers’ use, who use the service propositions in their own context (Holbrook, 1999). The seventh premise also addresses the collaboration of the development partners. This premise expresses that companies do not deliver value by themselves, but can only make value propositions. The proposition has to stand the test of the customer, in order to be accepted. Subsequently, this co-creation, helps create (preferably high) value. Similar arguments are found in the sixth premise, which considers the customer as a co-creator of value (Lusch et al., 2006). This premise supports the idea that value is always created interactively, which is already known from consumer research (Holbrook, 1999). The construct of value is inseparably connected with the attitude of the customer.

The eighth premise of S-D logic implies that a service-centered perspective is inherently customer-oriented and relational. This arises from the customer-oriented nature of service (Holbrook, 1999). Something is done for someone else who has an impact on the accomplishment and the result by rendering a reward or not. The S-D viewpoint is service-centered. According to the S-D perspective, the actors involved in NPD are therefore forced, to account for the customer and his needs and to act accordingly. Thus, operators of an S-D perspective have the chance to act market-oriented. Further, sustainable behavior of operators is demanded and enabled through S-D logic mindset. Innovation network relationships should be substantial and

stable in order of long-term success. S-D mindset leads innovators to sustainable oriented behavior not least its long-term orientation. (Vargo, Akaka, 2009; Vargo et al., 2010; Vargo, Lusch, 2011)

| FPs | Foundational Premise   | Relevant in NPD context   |
|-----|--|---|
| FP1 | Service is the fundamental basis of exchange                           | Physical goods are not the main intermediate results of development, but rather the application of knowledge  |
| FP3 | Goods are a distribution mechanism                                     | Intermediate results support distributing   |
|     | for service provision  | service   |
| FP6 | The customer is always a co-creator of value                           | (Complex) innovations call for co-creating. Therefore the customer has to be considered at each step of development   |
| FP7 | The enterprise cannot deliver value, but only offer value propositions | Intermediate results are proceeded to next value-adding steps as value propositions to create value in customer context. Therefore customer acceptance is crucial |
| FP8 | A service-centered view is inherently customer oriented and relational | The relationship to development partners is important. Innovation network relationships should be substantial and stable. The partners are customers, too         |
| FP9 | All social and economic actors are resource integrators                | Complex innovations call for knowledge networks   |

Fig. 2: Foundational premises of S-D logic in the context of NPD as presented by Vargo, Lusch, 2008b

As described, the premises of S-D logic can be transferred to NPD, as they also apply to exchange processes within NPD (Vargo et al., 2010; Vargo, Lusch, 2011). In the following, the premises of the S-D perspective are compared to approaches in NPD. The changes for advancing the processes for developing innovations by adopting S-D perspective will be derived.

### Conceptual Framework

The conceptual framework is worked out by selecting the foundational premises of S-D logic, which are relevant for innovation management and putting them in the context of NPD. In the following S-D logic and its inherent potential will be explained as well as its impact on sustainable NPD.

### Information on how customers use development results

According to the S-D perspective goods derive their value through use, which relates to the intangible dimension of value. Customers define the value and the necessary quality of the goods and signal acceptance through buying or not buying (Lusch et al., 2006; Vargo et al., 2010). Thus, to be able to understand how value emerges while a customer uses the intermediate re-

sult, additional relevant information about use and subsequent processing are necessary. For many years, value was understood as an inherent quality of goods, i.e. inbuilt. Vargo and Lusch describe this as part of the old goods-dominant logic perspective (Lusch et al., 2006; Vargo et al., 2008, 2010; Vargo, Lusch, 2011). In this perspective, value is considered „tangible“, which is propagated by the specialization acquired through degrees in engineering, which focuses on the physical effects of physical elements. This perception supports an „input-perspective“, which considers value as physical object that is later enhanced through additional processing and then put through to the next stage in the value chain as input. Implementing this input- perspective means that producers focus on components and activities in the value creating process which do not create value from the customers point of view. Changing to a service-oriented perspective can help counteract this (Souder, 1988; Moenaert et al., 1995; Song, Parry, 1997).

The S-D perspective dictates that the value creating partners implement all of their knowledge and skills when creating a value proposition (Vargo et al. 2010). In addition to applying direct knowledge, which is necessary for completing the obvious task, enhanced knowledge is also required for completing the task with a greater benefit for the development partner (Lusch et al., 2006; Vargo et al. 2011). This also influences sustainable and long-term relationships of development partners (Vargo, Akaka, 2009). The supplier of intermediate development results is therefore prompted to request further information from his development partners quickly to be able to exploit his full potential in creating the value proposition (Vargo, Lusch, 2008; Vargo et al. 2010).

The development process includes companies, research centers and additional institutions which also maintain economic exchange relationships when a basis technology should be committed, an intermediate product designed or the end product produced. The novel idea now is not to focus on physical goods within product development process, but to recognize the additional and external knowledge and skills which are transported through intermediate development results. For example, a sensor stitched into plastic as a physical intermediate result should not be seen as the main part of the transaction, but rather the specialized know-how which was able to apply the sensor in such a way that the sensor is able to deliver correct data even in extreme situations.

As described above, the initial, intermediate, and end-products, which emerge from an idea to a final product, also convey a combination of knowledge, skills and physical items to the next value-added step. They contain value the moment the development partner or customer implements or convert them. This perspective on value creation is important for the actors involved in NPD, if they are interested in a sustainable customer relationship, which is based on valuable propositions (Vargo et al., 2010).

In economical supplier relations, fulfillment is determined depending on whether the specifications from the order list are fulfilled. In the sense of Goods-Dominant logic, the physical end product, which should display the properties the client has ordered, is the aim of the transaction (Lusch et al., 2006; Vargo et al., 2008). This perspective makes it difficult that the supplier can conceptualize the product (and possibly improves it). Instead, in the development process, the supplier only uses the skills necessary for fulfilling the immediate task. Further, the accordant marketing capacities, which can support information exchange, are often limited in SMEs (Cooper, Kleinschmidt, 1994; Song, Parry, 1997). In this case, the supplier's potential cannot fully be exploited. This leads to problems when the customer intends to implement the ordered product in manner respectively quality different from what the supplier was aware of or could produce. The development partner's knowledge and skills can therefore be better implemented, if the buyer's complementary knowledge is conveyed so he can further consider the product according to his competencies and possibly improve it (Hagedoorn, 1993; Moenaert et al., 1995; Vargo et al., 2008; Zahay et al., 2004).

Expanding the view to include knowledge and skills which need to be brought in to creating a value proposition afford the chance to conduct product development more effectively and sustainably. A greater understanding of particular value contributions helps to better exploit the potentials of the development partners (Carlile, 2002; Esper et al., 2010).

### **Co-creating value propositions in new product development**

The S-D perspective points to collaborative and interactive value creation, which is not successful until the result of the co-creating is accepted by the customer and is useful for him in further stages of development (Vargo et al., 2010). Therefore, the interactional relationship is relational and waiting for and being open to the customer reaction. It is suggested to expand the process of value creation to the collaboration in value creation and to those steps to incorporate customer feedback (Esper et al., 2010; Vargo et al., 2010).

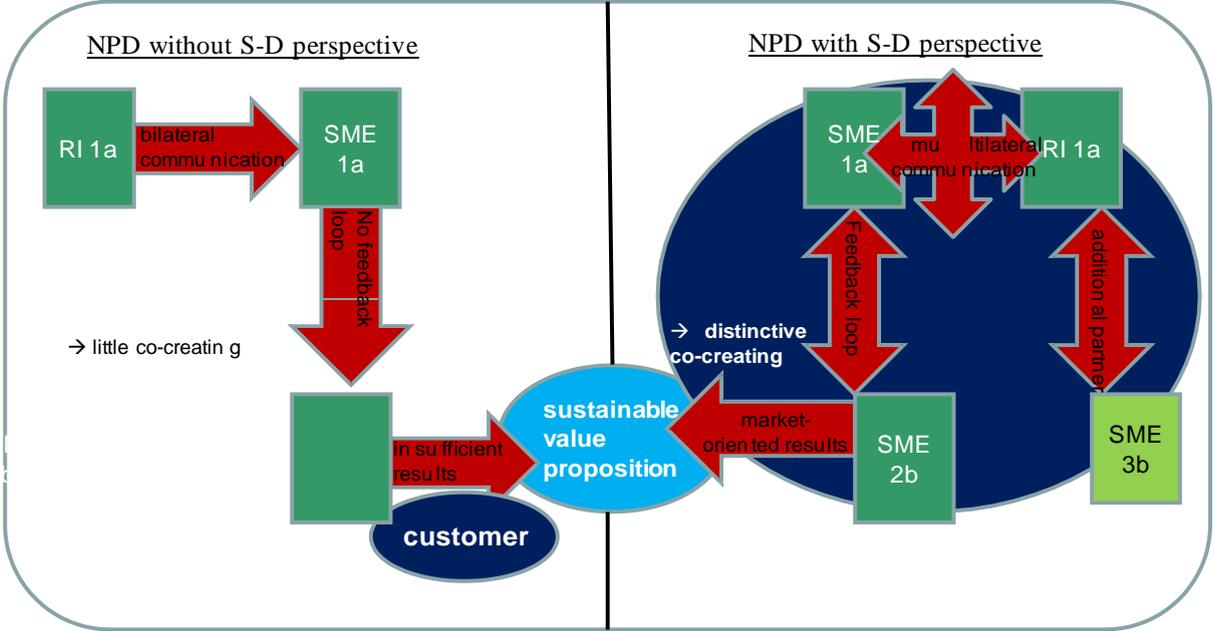
Due to the common uncertainty about the functionality of individual components, interacting development can determine success. Indeed co-creating value propositions is partially realized in current NPD projects, such as through techniques like simultaneous engineering, in which the customer is involved in development procedures. However, the idea of co-creating is not fully integrated in innovation management processes. In NPD models, the process phase of one actor ends typically with the delivery of the produced good. Feedback is partially possible, but the focus is on moving to the next value-added step (Cooper, 1983, 2008). Through that inside-perspective, the chance of improving one's own value creation is limited, because there are no capacities for incorporating customer feedback. Considering the opinions of downstream value-adding partners is difficult according to these models. These indirect relationships exist particularly in network projects (Cooper, 2008; Moenaert et al., 1995). From waiting for up to receiving acknowledgement from the customer (including customer feedback), additional learning is possible if the appropriate feedback information flow is implemented. Additionally, because of various indirect relationships, there is great learning potential and chances to advance the quality of co-creating the value proposition (Vargo et al., 2010).

According to S-D perspective, value creation occurs relationally in networks of networks. Consortia network activities are especially then visible when developing complex high-tech products. Propositions are developed together with numerous partners from science and economy. The companies are linked together directly and indirectly and integrate their resources. Furthermore, the network thought stands for openness and integration of further development partners (Chesbrough, 2003; Vargo et al., 2008; 2010) When a closed circle of NPD process participants exists in conventional NPE-networks, this can be critical to success if actors are missing who can significantly contribute to increasing the value proposition (Esper et al., 2010). Information about contributions of potential value-adding partners is often lacking. S-D logic accents the agility of service-oriented actors, which also includes the proactive search for additional value-adding partners and sustainable inter-organizational dealings among them. Thus it opens up potential in the dimensions of quality, time and turnover (Vargo et al., 2010).

Therefore, the active preparation, distribution and sharing of information has a positive influence on NPD. Together with the co-creating of value propositions through the development partners, this contributes to a more market-oriented and sustainable process and subsequently increases innovation success.

In the following figure, the left half shows actions on the way to developing new products without using the S-D perspective. In contrast, the right half shows actions and effects which are possible through adopting an S-D perspective.

Fig. 3: NPD without and with S-D perspective



This clearly depicts that in NPD-processes without S-D logic, self-contained process steps dominate and their output is passed on to the next step without integrating conscious and regular feedback. Communication between the development partners is more bilateral and is not designed to incorporate information from additional developing partners who are not directly connected to the project. Interdependencies with later value-adding steps and feedback cannot be adequately incorporated. The flow of information is limited to contact direction, quantity, and intensity. Subsequently, co-creation is limited or non-existent. The mentioned points of criticism are additional aspects of insufficient market-orientation. This leads to deficient results mentioned in innovation research (Parry, Song, 1994).

On the other hand, if NPD is conducted using S-D perspective, the process and its partners are moved to co-create the value proposition. The companies and science partners communicate with each other and with partners from outside the direct NPD network with a higher intensity (see “SME3b” in fig. 3). Furthermore, communication is multilateral, which means in both directions with more partners concerning the same topic. The value proposition is therefore more market- and long term-orientated and the success of the NPD projects is greater. The relevant customers are integrated in the NPD process and the end customer is involved in the process steps. Corresponding information flows are ensured and feedback loops are assimilated (Esper et al., 2010; Griffin et al., 2009).

To be able to take the chance to upgrade the NPD it is crucial that the actors’ increase their awareness of the importance of information, improve bilateral information flow, and integrate information of customers of the customer (Carlile, 2002; Griffin et al., 2009; Vargo et al., 2010).

An SME university consortium, which was created to execute multiple NPD projects, is the subject of a case. The aim of the case study is to understand the processes within the NPD and to further develop the innovative approach of S-D in NPD in order to improve innovation management.

### **Case study: co-creating value in NPD of an SME university network**

It is possible for us to accompany a network of research centers and business partners on their way to developing high-tech industrial goods. The consortium consists of over 20 companies and four research centers. The firms in this network can be described as heterogeneous, because they are involved in different steps of the value chain, are different in size and organizational structure, and serve markets in different manners. Even the structure of the participating research centers is heterogeneous. The scientific partners cover a wide range of areas from basic research over applied research to development.

The consortium partners are currently conducting development projects and analyzing projects, which were of varied success. The first projects were initiated before 2007 and were still conducted together, in part, up to 2010. Therefore, the development partners have gained crucial experience in strategic and operative NPD. Sustainable relations and proceedings within the network have become more important since the development partners realized their dependency of each other during NPD process. The development projects concerned divergent products and involved different numbers and types of partners. At the same time, the development projects were based on a common technology platform.

By interviewing the persons in charge of the consortium partners, it was possible to gain new insights into proceedings and activities within the projects. The insights in the NPD-processes relate to organizational proceedings as well activities at strategic and operative levels as well as their results. Currently, 17 interviews have been analyzed. Nine were carried out with the head of the participating companies and five with the main person responsible for the research centers. In addition, 19 talks were conducted with the operative acting developers in the SME and

the scientific institutions. The talks were conducted on several days to be able to set different points of emphasis. The questions concerned challenges in the innovation projects at the company and network levels, the cause and handling of challenges and achievements which occurred while conducting the projects and thereafter.

The interviews and talks confirmed well-known challenges in innovation management and additional insights were gained. It is established that crossing into new technological frontiers and the complexity of the technology are challenging for the developers. In addition, limited resources and time restrictions, as well as human resistance are additional challenges. A more in-depth analysis of the interviews and talks has revealed that there were several reasons why the information flow between the participants of the development projects was crucial for their success. The critical information concerned developmental steps of the direct project partners, but most notably it related to information on the use of partial results in subsequent steps of adding value and the use of intermediate results by the buyers within the value network as well as the end customer.

Moreover, the following conditions and processes were observed within the NPD process: All partners of the development network were connected through the common technology platform, which therefore influenced all projects directly and indirectly. In every NPD project, there were sub-projects and intermediate results influencing main projects. The intermediate results were of a tangible nature in the form of classical semi-finished goods and intangible in the form of information. Intermediate results were picked up from value network partners in the next value-adding steps and were processed further. By co-creating intermediate results, tangible results were transferred from companies to research centers, from the acting scientists to the processing companies, and from the research centers to the companies. In addition, the transfer of results occurred between the sub-units of the research centers and the companies and their sub-units. SME and research centers and their acting persons were therefore carriers of tangible and intangible initial development results. SME and research centers respectively their acting persons are therefore carrier of tangible and results. For example, if the goal is to develop a function-integrated plastic bracket with lightweight technology, then several information and material flows are interrelated. The scientists have to compare notes with stitchery companies which prepare the three-dimensional conductor, which later should be placed in the plastic. The plastic fabricator has to compare notes with the stitchery companies and the scientists, that the integration of the materials becomes possible. At that time the development steps of a Tier-2 supplier of automotive industry depends on these results if the function-integrated und structure strengthened bracket is to be delivered to an OEM in the future. Important information from the Tier-2 supplier to the application of the bracket is therefore relevant for the scientists and the stitchery companies, who develop the initial result of the three-dimensional enhancement-structure. It is clear that despite apparently independent sub-projects of individual development partners, there is a high interdependency on the other projects and value network partners. Particularly due to the great complexity of high-tech NPD and the high number of development partners, information flow upstream and downstream from value-adding steps are of high relevance for the success of the intended innovation.

Figure 4 illustrates the structures, relationships and information flows in an NPD network. Besides information flows, streams of tangible development pre-results are also displayed, in addition to the direction of transfer and the strength of the flows. Before the awareness for market-oriented product development was strengthened, the observed consortium acted similar to the abstract model of following figure.



RI = research institute, SME = small and medium-sized enterprise, 1..n = numeration of development partners, a..n = indexation of (sub-) development projects, = direction of transfer of tangible intermediate-results, = direction of transfer and shape of information flow

## RESULTS

The SMEs and the research centers which were the subjects of this investigation, had already worked together in innovation projects. The first projects were only successful to a limited extent. Defined turnover could not be reached and some projects were completely disliked by the market. Therefore it was worthwhile to develop an approach, with which the success of further NPD projects can be enhanced. This approach has been worked out on the basis of S-D logic (Vargo et al., 2010). The concept contains measures for communication and feedback as well as enabling sustainable co-creation of the value proposition. In iterative analytic slopes, the approach was developed further and implemented step by step in current NPD projects of the consortium. The conceptual framework delivers a contribution to research in the field of innovation management, and a new perspective on collaborating in NPD has been developed to enable the development of more market-oriented products.

The investigation showed that the success of several projects was obstructed or even failed, because the development of intermediate results did not reach the desired quality standard due to collaboration deficits. For example, one development partner processed a combination of new materials with a technology which he should have better adjusted to the new material mixture. This could have been done by the actor through acknowledgement of the intended application and he could have converted this relatively easily, which was ascertained later. There was no sufficient communication or feedback. The processed materials were unable to be used for the further development. The co-creation of the value proposition by the development partners would have been crucial.

Moreover, projects failed because the end product did not comply with the needs of the customers. The development project was technologically well-engineered and functional. However, the product properties were missing, which were not necessarily compelling, but which were requested by the customer.

After analyzing and aligning the results of the investigation, as well as validating them, deeper insights could be revealed. Several project partners did not have sufficient knowledge of the necessary quantitative processing for the next value adding steps. Therefore these development partners conducted steps which were inadequate, omitted important work, or disregarded specific environmental influences. At the same time, the partners' know-how would have enabled this if there had been stronger co-creating and sustainable orientated relationships. Furthermore, the project partners were not aware of the intended application of the product through the (end-) customers to an adequate degree. That led to the missing of development steps which could have been completed relatively easily through better communication and feedback.

Figure 5 illustrates the progressing information exchange in a co-creating network and displays and presents a recommendation for advancing innovation management. Greater effectiveness of NPD can be achieved through the sustainable co-creation of value.

Fig. 5: Recommendation for co-creating value in an NPD network

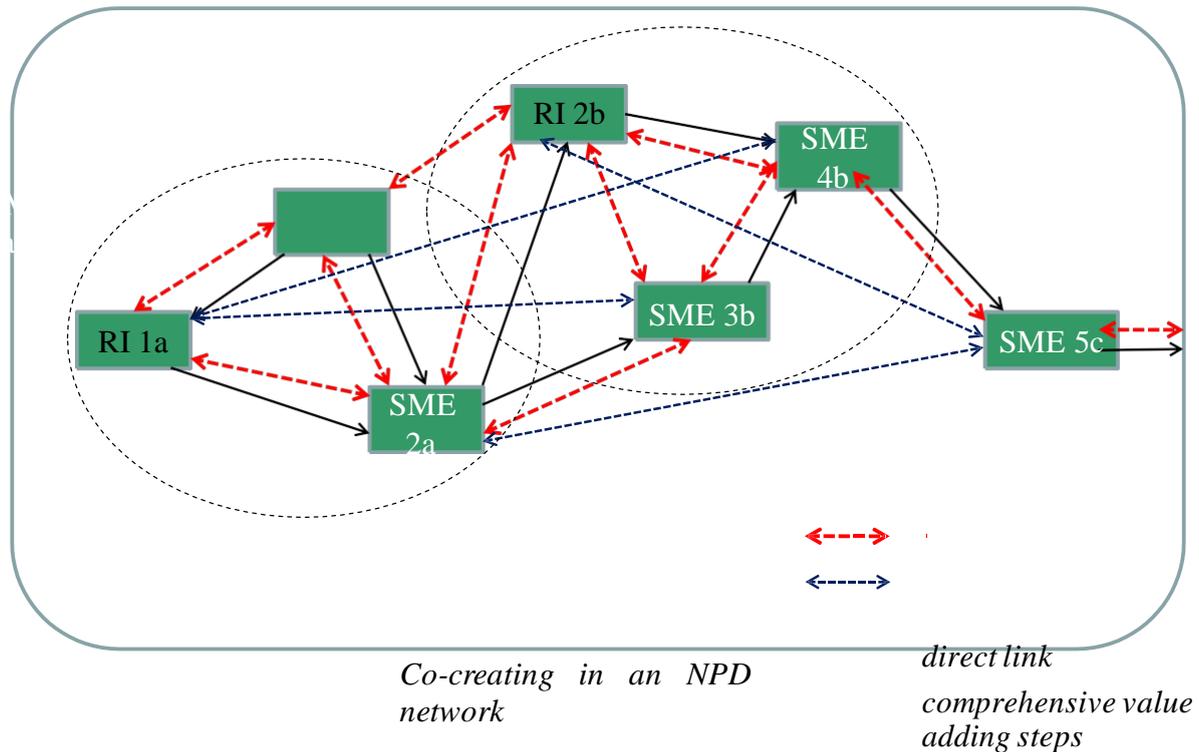


Figure 5 illustrates that adopting the S-D perspective, partial steps of NPD and NPD as a whole were seen through the perspective of co-creating. Information was edited more effectively: What has to be known by the development partner to be able to advance his value proposition? Communication and feedback are integrated through workshops and assessments, among others.

S-D logic allows us to see correlations within an NPD network. The division of information and physical goods is especially then important in complex NPD networks, as well as the fair and sustainable co-creation of value (Vargo et al., 2010).

By implementing assessments, bilateral and multilateral talks, as well as workshops, it was possible to apply the new mindset to the value network. Participants of the workshops and talks made sure the new mindset and behavior were transmitted appropriately into their units and working groups. Feedback from different acting persons shows that the new perspective on project development helped these to be conducted more effectively and that the derived measures brought market-orientation and sustainable behavior to processes and activities. It can be concluded from the results of the investigation that the S-D perspective lead to more awareness about the importance of information in the development partners. Furthermore they were better able to distribute information to the value network partners and conducted market-oriented and sustainable NPD.

From the gained experiences which were collected and explicated through the interviews, an innovative perspective on NPD projects has been developed which is being implemented in new and current projects. The persons in charge of the development network acknowledge the positive effects on information behavior, flow and intensity. Furthermore, the actors report that the change in perspective to S-D point of view plays an important role in increasing co-creation throughout the network. The exchange processes of the development partners with regard to the development of initial-results can now be viewed from this perspective, which puts value creation for the customer in the middle of NPD. To be able to convert value creation effectively, the information flow to upstream and downstream customers has to be reconsidered, adjusted and established. The changed way of thinking and interacting should be achieved through different practices of information exchange. The advanced information processing and the more intense way of co-creating value lead to more successful new products (Griffin et al., 2009; Rindfleisch, Moorman, 2001).

In conclusion, the positive effects of a change in perspective in NPD towards an S-D perspective can be described as follows: Information is actively obtained and delivered from upstream and downstream value network partners. This is caused by an increased awareness of the importance of information and sustainable relationships, which S-D logic dictates. Furthermore, the additional information relations are accelerated through the sustainable justification of value proposition creation, which is implied by co-creation. Co-creating those value propositions should also be beneficial for the customer, in that the customer can effectively create value for his customers from the value proposition.

Understanding how value is created for the customer and the customer's customers increases and can be observed in several parts of the process. This is reached due to the ability to rely on an expanded information basis concerning the wants of the customer. Using S-D logic, the perspective of co-creating value within a network by the development partners is achieved by focusing on value creation for all customers, instead of only focusing on the customer of the next value-adding step. Measures can be derived based on S-D logic with which NPD in networks can be conducted more effectively. This comprises measures which contain the information flow, its direction, intensity and connection. By adopting this approach, new information exchange relations between development partners are formed and existing relationships are intensified. Using advanced information flows, a more market-oriented and sustainable NPD can be carried out.

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# **APPROACHES, ENTRY MODE AND MARKET SCOPE IN INTERNATIONALIZATION PROCESS: COMPARISON ACROSS INDUSTRIES**

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**Purpose:** Approaches, entry mode and market scope in internationalization process have been examined. However, there is a lack of cross comparative research of internationalization of small to medium-sized (SMEs) manufacturing industries. Therefore, how industry specific factors influence the internationalization process dimensions are lacking. This omission can result in ignorance of specific characteristics of the products and the markets which in turn can lead to internationalization failures or inefficiencies. This study remedies this gap by conducting a cross comparative study of industries within the manufacturing sector.

**Objectives:** The specific research objectives are to compare the approaches, entry mode and market scope of internationalization process across various small to medium-sized manufacturing industries and to determine the distinctive features influencing the internationalization process in various industries.

**Theoretical Background/Previous Practice:** This study integrates the internationalization approaches and dimensions of internationalization theories. Three approaches to internationalization such as traditional, rapid and born-global are discussed. This brings in the Uppsala model (Johanson & Wiedersheim-Paul, 1975) that conceptualises incremental internationalization process, the International New Ventures model (Oviatt & McDougall 1994) that explains the rapid approach to internationalization, and the Born-global model (Rennie, 1993) that posits technology and globalization influence internationalization from inception. The study adopts the Finnish-POM Model (Welch & Luostarinen, 1988), and Chetty's (1999) extended the POM model to propose a broad framework on the dimensions of internationalization that measure the product, operation mode, market and organizational capacity.

**Approach/Methods:** This study applied qualitative method through in-depth interview approach. Using unstructured and semi-structured interview protocol, 54 SMEs across the seven industries participated in this study. Industry reports and company documents were also reviewed for additional information.

**Results/Insights:** The study found distinctive features of the dimensions of internationalisation which substantially indicate that Rubber & Plastic-based, Electrical & Electronics, and Transport & Machinery industries, which nature of business is high-technology and knowledge-intensified have faster pace and rapid pattern of internationalization, have high commitment type of foreign entry mode, and have wider

coverage of markets towards internationalization, in comparison to low technology and less knowledge SMEs. This implies that firms in the former category are better positioned for internationalization.

**Implications:** The study generates research propositions relevant in explaining on the ‘how’ or ‘why’ of specific approaches, entry mode and market scope for internationalization, according to specific characteristics of firms. These groups of propositions which provide a conceptualization of the internationalization process based on the characteristics of firms, products and markets, form a mid-range theorization of internationalization dimensions. Linking the theories to practicality, SMEs from various industries are exposed to features important for their internationalization process. For the policymakers, this new conceptualization enable the development and monitoring of support mechanisms that match the need of SMEs.

**Keywords:** Dimensions of internationalization, Internationalization process, small to medium-sized enterprises (SMEs), Manufacturing industries, Emerging economies

## **Introduction**

The emergence of a growing number of small to medium-sized enterprises (SMEs) that are operating internationally has received the attention of researchers today. Extant literature on SME internationalization discuss that the development of SMEs in international activities can be measured by several dimensions, such as products or services, operation modes, markets, firm’s attitudes toward international expansion, speed, pace, and patterns. These dimensions determine the patterns of internationalization of an SME. Past literature have highlighted the traditional pattern, such as the Uppsala Internationalization Process Model (Johanson and Vahlne 1977, 1990; Johanson and Wiedersheim-Paul 1975), or an early and accelerated process of internationalization, such as born-global (Evangelista 2005; Rialp et al. 2005) patterns for internationalization.

According to Hagedoorn and Duysters (2002), although dimensions and patterns of internationalization have been studied on SMEs in various countries, research on dimensions leading to the formation of various dimensions from wide range of manufacturing industries in developing and emerging economies is still limited. To address this lack, this paper aims to contribute to a better conceptualization and understanding of the dimensions of SMEs internationalization. The dimensions that include pace, speed, foreign entry mode, market scope, and patterns will be compared amongst various manufacturing industries.

The paper proceeds as follows. First, we examine the literature focusing on the SME internationalization theory, dimensions of internationalization and a brief description of SME in manufacturing sector in Malaysia. Second, we describe the methodology used to carry out the study. Third, we present the results of the study in quantitative and qualitative manners.

Fourth, we discuss the findings and we suggest propositions. Finally, we conclude our paper and provide opportunities for future research.

## **SME Internationalization Approaches**

According to Bell and McNaughton (2000), the firm's internationalization is mainly distinguished by being a traditional firm utilizing an incremental approach to internationalization or a born global firm that has high value-added products and services.

### *Traditional Internationalization approach*

One prominent model dominating the traditional internationalization is the Uppsala model (Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977; 1990). This model conceptualises the internationalization process through four incremental steps: no regular export activities; export via independent representatives (agents); establishment of an overseas sales subsidiary; establishment of an overseas production or manufacturing subsidiary. The model is widely used to describe two patterns of internationalization. Firstly, the internationalization process is built up from the four steps mentioned above. Firms make their initial entry into a market using a low risk and low commitment strategy, such as direct exporting, before increasing to a high risk and high commitment strategy via manufacturing subsidiaries and foreign sales. The second pattern is to enter new markets successively and start by going into countries with less psychic distance factors, in terms of language, education, business practices, culture and industrial development differences (Andersen, 1993; Hollensen, 2001; Johanson & Vahlne 1990). This suggests firms enter a particular market close to and similar to the home country before expanding into more distant and dissimilar markets.

However, Johanson and Vahlne (1990) argue exceptions to this incremental model, allow firms to proceed with high commitment entry strategies (such as leapfrogging stages) if they meet the following criteria; They are large in size; They have access to market knowledge when market conditions are stable and homogeneous; Market knowledge can be generalised to similar markets. The authors of the Uppsala model support feedback and critically reviewed and rationalized their model in response to criticism. Although they believe their model is still applicable, they advocate a new approach to meet today's technology challenges and global competition (Johanson & Vahlne, 2003).

### *Rapid Internationalization Approach*

Rapid internationalization models emerged due to evidence that many firms avoid incremental patterns in their internationalization process and claims that firms go into international markets right from their birth (Bell, 1995; McKinsey et al., 1993; Oviatt & McDougall 1994). Some empirical evidence conforms to this claim which challenges the validity of incremental models, in particular the Uppsala model (Bell et al., 2000; Crick & Jones, 2000). This perspective is associated with many concepts, such as *Born Global* (Rennie, 1993), *International New Ventures* (Oviatt & McDougall 1994), *Global Start-ups* (McDougall et al., 1994), *Born International* (Majkgård & Sharma, 1999), *High Technology Start-ups* (Jolly, Alahunta, & Jeannet, 1992), *Instant Internationals* (Preece, Miles, & Baetz, 1999) and *Virtual Instant Global Entrepreneurs* (Katz, Safranski & Khan, 2003). According to Oviatt and McDougall (1994), this approach has three focused issues: 1) 'how', refers to the coordination of value chain activities; 2) 'where', concerns the number of countries involved; and 3) 'when', implies that age or timing of overseas' ventures is prominent for firms' internationalization. Significantly, the timing and speed into foreign market entry are the distinct features between the incremental and rapid internationalization models (Antoncic & Hisrich, 2000).

### *Born-global Approach*

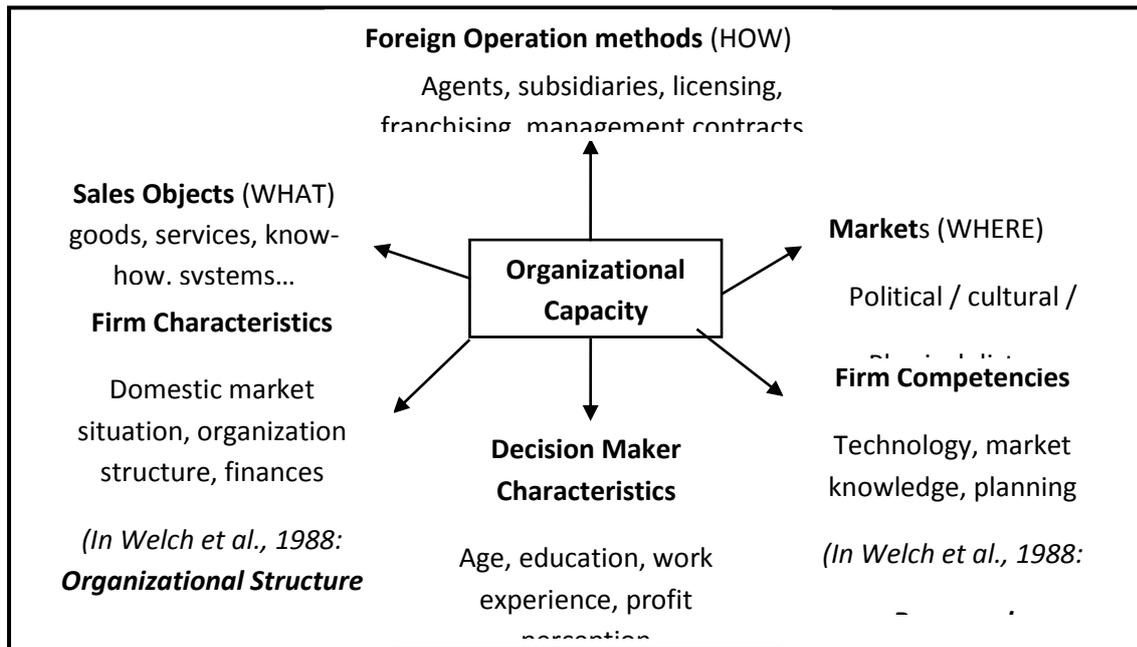
Gabrielsson (2005) posits that Born-global emerges due to cutting edge technology and access to a borderless marketplace. The born-global firms start internationalizing immediately; sometimes circumventing domestic operations or working concurrently with domestic operations, or directly after startup (Bell et al., 2000; Luostarinen & Gabrielsson, 2004). The emergence of Born Global firms is due to the global economy, where to survive against the forces of globalization, SMEs are advised to seek for overseas' markets (Jones & Dimitratos 2004).

Beside globalization issues, such as the huge demand for globally customised products, growth of international value-chains and global networks and MNCs seeking for global outsourcing, advances in technologies have contributed to the emergence of born global firms. Technology has speed up communication, transportation, production and process, access to knowledgeable human capital and international institutions offering financial, technology, tools, knowledge and Research and Development assistance (Knight & Cavusgil 1996; Madsen, Rasmussen & Servais, 2000). According to Madsen and Servais (1997) successful born globals depend on experience, ambition and motivation of the founders, corporate governance, the structure of the organisation, market internationalization, technology and the environment. Although, the born global firms may have limited resources and little experience in international business, they usually offer niche products targeted at global markets and possess entrepreneurial knowledge-intensive skills which enables them to offer value-added products and services (Gabrielsson & Al-Obaidi, 2004).

## **Dimensions of Internationalization**

After reviewing various models related to the dimensions of internationalization that are used to measure the development of international activities, two dimensions of internationalization models will be discussed. These include Welch and Luostarinen's (1988) and Chetty's (1999) models. The earliest model of dimensions of internationalization evolved in Finland as 'The Finnish-POM Model'. The POM (Luostarinen, 1979; Luostarinen & Welch 1997; Welch & Luostarinen 1988) model distinguishes three dimensions of internationalization. First is Product (P), which describes 'what' in terms of physical goods, services, know-how and systems. Second is Operation mode (O) which relates to 'how' firms operate, either through agents, subsidiaries, licensing and management contracts. Third is Market (M), which describes 'where' in relation to the selection of markets and takes into account political, cultural and physical differences. The 'organizational capacity' dimension however was later added to describe organizational structure, finance and personnel (Welch et al., 1988). However, Chetty (1999) comments this dimension is shallow and lacks an explanation of the variables (organizational structure, finance and personnel).

Chetty (1999) claims that other important dimensions could be more effective to assess internationalization. Subsequently, 'firm characteristics', 'decision-maker characteristics' and 'firm competencies' replaced the organizational capacity variables. The revised model included organizational structure and finance in the firm characteristics, while personnel are included in the decision-maker characteristics. Chetty argues this replacement was timely and relevant, as the variables play an essential role in internationalizing a firm and help determine the firm's approach. Moreover, firm competencies and decision-maker characteristics aid the ability to gather and exploit the information to expedite internationalization process (Mtigwe, 2005; Styles & Amber, 1994). In this form, the POM model contains six dimensions as is depicted in Figure 1.



**Figure 1 The POM Model: The Six Dimensions of Internationalization**

Source: Adapted from Chetty (1999, p.124 & 130), based on Welch and Luostarinen (Welch et al., 1988) and Chetty (1999).

The POM model supports the Uppsala model’s incremental perspective that firms start internationalization into culturally similar countries. It shows that at the beginning, firms are inclined to penetrate countries that have similar physical, political, cultural, and probably economic and social conditions. As they gain confidence, the firms might seek for other distant markets. This notion of ‘psychic distance’ has an impact on the firms’ internationalization process (Chetty, 1999; Vahlne & Johanson, 2002). The models also concur that firms may choose different operation modes, such as agents, subsidiaries, licensing, franchising, management contracts for penetrating into foreign markets, rather than only on exporting. The ‘sales objects’ have a varied product range, from goods to services, to know-how, and to systems. Thus, combination of commitment, capacity, diverse operational methods, products and markets allow the firms to leapfrog certain stages and accelerate the internationalization process (Chetty & Campell-Hunt, 2004; Luostarinen & Welch 1997).

### **Profiles of SMEs in Manufacturing Sector in Malaysia**

The SMEs in Malaysia are defined as “an enterprise with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million” (NSDC, 2005, p.5-6). The sector represents 99.2% of total business establishments in Malaysia. It provides 56% of employment, contributes to 32% of Gross Domestic Products (GDP) and 19% of exports

(NSDC 2008). The SME sector has contributed to the economic growth, social cohesion, employment and local development for the country.

The SMEs are classified into three sectors: Manufacturing, Services, and Agriculture. Since the focus of this is on the manufacturing, we include some pertinent information on this sector. The total number of SMEs in the manufacturing sector, as of the year 2006 was 37,866, and they are classified into several industries. Table 1 describes the distribution of SMEs by sector in manufacturing-based in Malaysia.

**Table 1**                      **Distribution of SMEs by Sector in Manufacturing-Based**

| Sector                          | Number of Firms |         | Value-added |         | Employment |         |
|---------------------------------|-----------------|---------|-------------|---------|------------|---------|
|                                 | Number          | % share | RM mil.     | % share | Workers    | % share |
| Textiles & Apparel              | 3,331           | 17.5    | 958         | 5.2     | 49,422     | 8.8     |
| Wood-based Products             | 2,953           | 15.6    | 2,464       | 13.3    | 114,301    | 20.3    |
| Food Industries                 | 2,904           | 15.3    | 3,019       | 16.3    | 71,084     | 12.6    |
| Electrical & Electronics        | 599             | 3.2     | 1,427       | 7.7     | 42,088     | 7.5     |
| Machinery                       | 1,064           | 5.6     | 763         | 4.1     | 24,152     | 4.3     |
| Rubber-based Products           | 408             | 2.2     | 1,054       | 5.7     | 31,731     | 5.6     |
| Transport Equipment             | 423             | 2.2     | 530         | 2.8     | 14,535     | 2.6     |
| Fabricated Metal Products       | 2,260           | 11.9    | 1,463       | 7.9     | 47,251     | 8.4     |
| Plastics                        | 1,009           | 5.3     | 1,557       | 8.4     | 47,364     | 8.4     |
| Non Metallic Mineral Industries | 708             | 3.7     | 874         | 4.7     | 24,300     | 4.3     |
| Chemicals (Industrial & Others) | 429             | 2.3     | 1,866       | 10.1    | 15,871     | 2.9     |
| Iron & Steel Basic Industries   | 362             | 1.9     | 436         | 2.4     | 10,417     | 1.7     |
| All Remaining Sectors           | 2,500           | 13.2    | 2,111       | 11.3    | 71,080     | 12.7    |

|              |               |              |               |              |                |              |
|--------------|---------------|--------------|---------------|--------------|----------------|--------------|
| <b>Total</b> | <b>18,950</b> | <b>100.0</b> | <b>18,522</b> | <b>100.0</b> | <b>563,596</b> | <b>100.0</b> |
|--------------|---------------|--------------|---------------|--------------|----------------|--------------|

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*Source: SMIDP Study Report, 2006.*

This brief description of SMEs in manufacturing sector in Malaysia provides insights into the profiles and development of SMEs in this particular sector in the Malaysia context.

## **Research Methodology**

Since most of the current literature on patterns of internationalization has been empirically taken from developed countries, we wanted to find out whether the characteristics outlined in the past literature are also relevant to the Malaysian SMEs. In addition, we also aimed to explore if there are new characteristics on the three patterns (i.e: traditional, rapid and born-global) that can add up to the theoretical knowledge about this issue. As research on the patterns of SME internationalization in Malaysia is still lacking, an exploratory study using a qualitative method was deemed most appropriate (Gummesson, 1991; Hesse-Biber & Leavy, 2006). According to Morse and Richards (2002), this approach allows the identification of new views that are not yet available in the existing patterns. This study intends to ‘understand a phenomenon’, thus to get a better picture, Yin (2003) strongly proposed the researchers to apply a qualitative method if a ‘how’ or ‘why’ question is being asked about a phenomenon. Therefore, this study applied the qualitative method via in-depth interview approach.

In gathering data, we applied multiple sources of evidence using both primary and secondary data as suggested by Yin (2003). Mainly the primary data was collected through qualitative, in-depth interviews with the founders or SME key personnels who were deeply involved with internationalization decision-making processes. While the secondary data was gathered from the industry reports and company documents. Unstructured and semi-structured in-depth interview protocols were utilized to assist with the interview process (May, 2001). After many calls and contacts were made, 54 company-respondents agreed to participate in this study. Some of the companies requested the questions in advance so that they could prepare the responses before the scheduled interview sessions took place. The interviews were conducted at the locations decided by the respondents; 52 interviews were done at the companies’ premises and two were outside. In average, the interviews took about one to one and a half hour. These interviews have provided insightful first-hand information since the selected respondents were definitely the most knowledgeable sources of information about their venture creation activities (Shook et al. 2003).

During the interviews, we mainly followed the interview protocol which was designed to help measure the contextual factors and items (May 2001). The main research question addressed was “How can the internationalization process of the SMEs in manufacturing sector be described”? This research question particularly attempted to discover the pattern and the pace of internationalization of Malaysian SMEs. Therefore, **specifically these questions were asked during the interviews:**

- (1) When was the company established?
- (2) When was the first time company started to internationalize?
- (3) What foreign entry mode/s does your company take to go international?
- (4) Which markets/countries is your company involved with?
- (5) How many markets/countries is your company involved with?

These questions were formulated based on the theoretical considerations (Eisenhardt, 1989) which reflected along the five dimensions in the literature-driven conceptual including pace, foreign entry mode, market selection and number of markets. The characteristics in these dimensions allowed the identification of the internationalization process in various manufacturing SME industries in Malaysia.

### **Selected Firms and Study Respondents**

The selection of the SMEs was based on theoretical considerations because according to Eisenhardt (1989), the random selection of the firms is neither necessary nor preferable, and extreme examples are most appropriate when seeking to extend theory. The SME companies were selected based on the following criteria: First, a Malaysian-based manufacturer currently engaged in international activities regardless of what modes of foreign entry they select. Second, the companies must be registered with SME Corp (formerly known as SMIDEC) and Malaysian Industrial Development Association (MIDA), the two main agencies that link SMEs and industrial development. Third, they are listed in the Malaysia External Trade Development Corporation (MATRADE) and the Federation of Malaysian Manufacturers (FMM) directories. And finally, the companies have less than 300 employees. The 54 manufacturing SMEs participated in this study were classified into seven industries, and each of them consisted of multi-companies. Each industry was given its own code, while the companies were numbered accordingly. The information is presented in Table 2.

**Table 2 Industry and Company Profiles**

| No. | Industry                 | Industry Code | No. of Companies | Company Code | Percentage |
|-----|--------------------------|---------------|------------------|--------------|------------|
| 1   | Electrical & Electronics | EE            | 8                | EE 1-8       | 14.8       |

|   |                        |    |    |        |      |
|---|------------------------|----|----|--------|------|
| 2 | Agro Manufacturing     | AG | 6  | AG 1-6 | 11.1 |
| 3 | Food & Beverages       | FB | 8  | FB 1-8 | 14.8 |
| 4 | Rubber & Plastic-based | RP | 6  | RP 1-6 | 11.1 |
| 5 | Transport & Machinery  | TM | 8  | TM 1-8 | 14.8 |
| 6 | Biotechnology & Herbal | BH | 9  | BH 1-9 | 16.7 |
| 7 | Wood-based Furniture   | WF | 9  | WF 1-9 | 16.7 |
|   | Total                  |    | 54 |        | 100  |

### Industry Characteristics

The seven industries consisting of multi-companies produce different types of products. The details of the industries and their products are described in Table 3.

**Table 3 Industry and Product Characteristics**

| Industry                 | Product Description   |
|--------------------------|---|
| Electrical & Electronics | Companies in this industry produce electronic display boards, lamps, cables and accessories, termination kits, low voltage switchboards and switchgears.  |
| Agro Manufacturing       | Companies in this industry produce (1) agro products (i.e. chutney, herbal tea, Roselle jam, and cordial juice), (2) palm oil products (i.e. margarine, shortening, vegetable ghee, cooking oil), (3) commodity products (i.e. ground spices, cocoa, flour & premixes) and coffee.                                |
| Food & Beverages         | Companies in this industry produce packaged food products, such as soft drinks, prepared foods (i.e. pizza, cold cuts, sausages, satay, and soup), biscuits (i.e. cookies & traditional dishes), vermicelli products, and sauces (i.e. chillies, oyster, black and tomato sauce) candy & jelly and fish products. |
| Rubber & Plastic-based   | The related goods for this industry are rubber foam mattresses, pillows, plastic cables for constructions, disposable syringes and plastic needles, and other related plastic products.   |
| Transport & Machinery    | Companies in this industry produce automotive parts (i.e. brake systems, stabilizer bars, coil springs, engine & transmission components, cold drawn steel bars), machinery equipment (i.e. processing equipment, pressure vessels, structural steel products, measuring instruments, cutting tools               |

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and oven) as well as military and rescue vehicles.

Biotechnology & The examples of biotech products are animal vaccines, liquid  
Herbal           fertilizer and medical products and the herbal products are  
                      mainly related to herbal supplements and personal care  
                      products.

Wood-based       & The companies in this industry produce three categories of  
Furniture        products: (a) Furniture (i.e. audio furniture, metal and cane  
                      furniture, solid surface, office & lab furniture), (b) Crafts and  
                      kitchenware, and (c) Paper products (i.e. fine papers and  
                      boards, photocopy, book covers, table-top calendars, diaries,  
                      tailor-made boxes, hard cover files with ring mechanism, etc).

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## **Data Analysis**

To assist with the identification and organization of the themes and items of the data, we followed the suggestion of Easterby-Smith et al. (2002) that researchers should be familiar with the interview transcripts. Thus, to ensure familiarity, all the 54 transcripts were read several times which enabled the formulation of the themes and categories to be made with certainty. In the process of identifying important issues pertaining to those research questions, we utilized the qualitative software, NVivo in sorting out the themes and categories. We also conducted the analysis manually. By doing this, we could achieve construct validity as well as allow for a well-rounded analysis to be made. For each interview script, we used a pattern-matching technique to compare the empirically based pattern with the theoretical one. In addition, the characteristics and profiles of the SMEs were also analysed in determining the dimensions of internationalization.

## **Results**

In this section, we show the results of our industry-based empirical analysis. To do this, we first present the comparisons of characteristics of the companies within each industry. Second, we present the comparisons of dimensions of internationalization. Next, we analyze the findings and present distinctive features of dimensions of internationalization in each industry.

### *Comparison of Characteristics*

Based on the demographic data, the profile of the participating SMEs, such as: firm size, business type, ownership status, firm establishment and ethnic of firm were identified. These are illustrated in Tables 4, 5 and 6.

**Table 4 Profiles of the SME Companies (Size, Type, and Ownership)**

| Industry (Code) | Firm Size              |                         | Business Type                         |                               |                    | Ownership Status |  |
|-----------------|------------------------|-------------------------|---------------------------------------|-------------------------------|--------------------|------------------|--|
|                 | Small<br>5≥50<br>empl. | Med.<br>51≥300<br>empl. | Industrial<br>Linkages<br>Prog. (ILP) | Govt<br>Link.<br>Co.<br>(GLC) | Famil<br>y<br>Bus. | Local<br>Owner   | Local<br>&<br>Forei<br>gn<br>Owne<br>r |
| EE              | 5                      | 3                       | 3                                     | 3                             | 2                  | 4                | 4                                      |
| AG              | 3                      | 3                       | 1                                     | 1                             | 4                  | 5                | 1                                      |
| FB              | 3                      | 5                       | 5                                     | 0                             | 3                  | 6                | 2                                      |
| RP              | 2                      | 4                       | 2                                     | 2                             | 2                  | 4                | 2                                      |
| TM              | 1                      | 7                       | 5                                     | 2                             | 1                  | 3                | 5                                      |
| BH              | 7                      | 2                       | 0                                     | 2                             | 7                  | 9                | 0                                      |
| WF              | 4                      | 5                       | 2                                     | 1                             | 6                  | 7                | 2                                      |
| Subtotal        | 25                     | 29                      | 18                                    | 11                            | 25                 | 38               | 16                                     |
| (%)             | 46%                    | 54%                     | 33%                                   | 21%                           | 46%                | 70%              | 30%                                    |

*Size* The samples have a relatively even distribution between small and medium-sized firms. Twenty-five firms (46%) small-sized and 29 (54%) medium-sized. The Transport & Machinery Industry had the most medium sized firms (87.5%), while the Biotechnology & Herbal Industry were dominated by small-sized companies (77.8%).

*Business Type* The business types were identified as follows: 33% are involved with the industrial linkages programmes (ILPs), 21% are government linked companies (GLCs), and 46% are family businesses. The Transport & Machinery (87.5%) and Food & Beverages Industries (62.5%) were mainly involved in the ILPs. Initially all the SMEs in the Transport & Machinery Industry were linked to the ILPs and GLCs, but one exited from the programme due to a split of ownership with the foreign partner, and then become a family Business firm. The GLCs covered the Electrical & Electronics Industry. The Biotechnology & Herbal Industry was monopolised by family business (7 of 9 firms), while the other two are the GLCs, linked to the Malaysia Technology Development Corporation.

*Ownership Status* Of the total respondents, 70% were wholly-owned by local shareholders, while 30% shared ownership with foreigners. All the Biotechnology & Herbal SMEs were owned by locals, while the highest shared ownership was among the Transport & Machinery firms.

**Table 5 Profiles of the SME Companies (Establishment and Ethnicity)**

| Industry<br>(Code) | Establishment of Firm |             |             |               | Owner Ethnicity |         |        |        |
|--------------------|-----------------------|-------------|-------------|---------------|-----------------|---------|--------|--------|
|                    | Before/By 1980        | 1981 - 1989 | 1990 - 1999 | Above/By 2000 | Malay           | Chinese | Indian | Others |
| EE                 | 2                     | 1           | 3           | 2             | 3               | 4       | 1      | 0      |
| AG                 | 2                     | 2           | 2           | 0             | 3               | 1       | 1      | 1      |
| FB                 | 2                     | 2           | 3           | 1             | 6               | 1       | 1      | 0      |
| RP                 | 0                     | 1           | 4           | 1             | 4               | 1       | 1      | 0      |
| TM                 | 0                     | 2           | 4           | 2             | 4               | 4       | 0      | 0      |
| BH                 | 0                     | 0           | 5           | 4             | 9               | 0       | 0      | 0      |
| WF                 | 0                     | 3           | 4           | 2             | 5               | 2       | 1      | 1      |
| Subtotal           | 6                     | 11          | 25          | 12            | 34              | 13      | 5      | 2      |
| (%)                | 11%                   | 21%         | 46%         | 22%           | 63%             | 24%     | 9%     | 4%     |

*Firm Establishment* The firms were established over a broad range of years. Sixty percent of the firms were established from 1990 onwards. Twenty-one percent were founded between 1981 to 1989 and only 11% (6 firms) were established before 1980. The oldest firm was established in 1951 as backyard family business in the Food & Beverages Industry; whereas the newest establishment was in early 2005 in the Biotechnology & Herbal Industry. All of the participating Biotechnology & Herbal companies were established after 1980.

*Owner Ethnicity* In terms of firm ethnicity, 63% of the firms were owned by Malays, 24% were owned by Chinese, 9% by Indians and 4% were classified as other ethnic groups. The Malays have substantial ownerships in the Biotechnology & Herbal and Food & Beverages Industries, while the Chinese owned many of the Electrical & Electronics and Transport & Machinery Industry companies.

### Comparison of Dimensions of Internationalization

This section describes the dimensions of the internationalization across the seven industries. The samples in each industry are examined using the process of data reduction, data display and drawing of conclusions and verification as suggested by Miles and Huberman (1994). The dimensions of internationalization are compared based on pace, mode of entry and market scopes. The detailed dimensions of internationalization are shown in Table 6.

#### *Pace of Internationalization*

The pace of internationalization was assessed through the question, “When was the first time your company started to internationalize?” Comparing the establishment year of the firm to the first time the firm entered foreign markets, the pace was classified into five categories, ranging from 1 to 5 years to more than 20 years. The pace of 1 to 5 years was strongest in the Rubber & Plastic-based (83%) and the Electrical & Electronics Industry (75%) industries, although it occurred in all seven industries. The 6 to 10 years pace involved five industries (the AG, FB, TM, BH and WF), but was very strong in the Transport & Machinery Industry. Only two industries, (the AG and WF) internationalized within 11 to 15 years. The 16 to 20 years pace was found in the Electrical & Electronics, Food & Beverages and Rubber &

Plastic-based Industries, whereas *more than 20 years* was demonstrated in the Electrical & Electronics, Agro Manufacturing and Food & Beverages Industries.

### ***Pattern of Internationalization***

Using the ‘number of years taken to internationalize’ this study classifies the patterns into three categories. First, the Traditional pattern which takes more than 5 years to internationalize and internationalization is a gradual or incremental process. Second, the Rapid pattern which takes between 1 to 5 years with rapid business growth domestically and planned rapid international ventures. And third, the Born-Global pattern where the firm internationalises immediately after commencement. Figure 1 illustrates the predominant patterns, showing that 50% internationalized gradually utilizing the *traditional pattern*, 35% followed the *rapid pattern*, and 15% were firms with the *born-global pattern*. In comparing the patterns of internationalization across the manufacturing industries, the *traditional pattern* was observed across all the seven industries but mostly occurred in the Agro Manufacturing (67%), Food & Beverages (63%) and Transport & Machinery (63%) industries. This indicates that these SMEs are inclined towards incremental or staged internationalization. The *rapid* and the *born-global patterns* were observed in six industries. The *rapid pattern* was demonstrated most strongly in the Rubber & Plastic-based (67%) and Electrical & Electronics (63%) industries. While the *born-global* occurred in the Agro Manufacturing (33%) and Wood-based & Furniture (22%) industries. In addition, the Agro Manufacturing Industry showed no evidence behaving in a *rapid pattern*, while the Rubber & Plastic-based Industry lacked the *born-global pattern*.

### ***Mode of Foreign Entry***

Five foreign entry modes were identified: *direct exporting* (31%), *agents* (22%), *distributors* (19%), *joint ventures* (13%) and *subcontracting* (15%). The findings show that industries either used three or four entry modes to foreign markets. For instance, the Food & Beverages, Rubber & Plastic-based and Transport & Machinery Industries ventured overseas via four modes, while the Electrical & Electronics, Agro Manufacturing, Biotechnology & Herbal and Wood-based & Furniture Industries chose three modes. Five industries favored the *direct exporting* mode; with the two excluded industries being the Electrical & Electronics and Biotechnology & Herbal. Foreign *agents* were used by five industries, although not by Electrical and Wood-based & Furniture. *Distributors* were the entry mode for six industries excluding the Transport & Machinery Industry. *Joint ventures* were apparent in four industries (the EE, FB, TM and BH Industries). Finally, *subcontracting*, which included a vendor system, was an important means for four industries (the EE, RP, TM and WF Industries).

**Table 6 Dimensions of SMEs Internationalization Process in Manufacturing Industries**

| Dimensions           | Categories         | Industry    |      |             |      |             |      |             |      |             |      |             |      |             |      |       |      |     |
|----------------------|--------------------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------|------|-----|
|                      |                    | EE<br>(n=8) |      | AG<br>(n=6) |      | FB<br>(n=8) |      | RP<br>(n=6) |      | TM<br>(n=8) |      | BH<br>(n=9) |      | WF<br>(n=9) |      | Total |      |     |
|                      |                    | n           | %    | n           | %    | n           | %    | n           | %    | n           | %    | n           | %    | n           | %    | N=54  | %    |     |
| <b>Pace</b>          | More than 20 years | 1           | 12.5 | 1           | 16.7 | 2           | 25   | 0           | 0    | 0           | 0    | 0           | 0    | 0           | 0    | 0     | 4    | 7.4 |
|                      | 16 to 20 years     | 1           | 12.5 | 0           | 0    | 1           | 12.5 | 1           | 16.7 | 0           | 0    | 0           | 0    | 0           | 0    | 0     | 3    | 5.6 |
|                      | 11 to 15 years     | 0           | 0    | 1           | 16.7 | 0           | 0    | 0           | 0    | 0           | 0    | 0           | 0    | 2           | 22.2 | 3     | 5.6  |     |
|                      | 6 to 10 years      | 0           | 0    | 2           | 33.3 | 2           | 25   | 0           | 0    | 6           | 75   | 4           | 44.4 | 3           | 33.3 | 17    | 31.5 |     |
|                      | 1 to 5 years       | 6           | 75   | 2           | 33.3 | 3           | 37.5 | 5           | 83.3 | 2           | 25   | 5           | 55.6 | 4           | 44.4 | 27    | 50.0 |     |
| <b>Pattern</b>       | Traditional        | 2           | 25   | 4           | 66.7 | 5           | 62.5 | 2           | 33.3 | 5           | 62.5 | 4           | 44.4 | 5           | 55.6 | 27    | 50.0 |     |
|                      | Rapid              | 5           | 62.5 | 0           | 0    | 2           | 25   | 4           | 66.7 | 2           | 25   | 4           | 44.4 | 2           | 22.2 | 19    | 35.2 |     |
|                      | Born Global        | 1           | 12.5 | 2           | 33.3 | 1           | 12.5 | 0           | 0    | 1           | 12.5 | 1           | 11.1 | 2           | 22.2 | 8     | 14.8 |     |
| <b>Mode of Entry</b> | Direct Exporting   | 0           | 0    | 3           | 50   | 2           | 25   | 3           | 50   | 3           | 37.5 | 0           | 0    | 6           | 66.7 | 17    | 31.5 |     |
|                      | Agents             | 0           | 0    | 2           | 33.3 | 3           | 37.5 | 1           | 16.7 | 2           | 25   | 4           | 44.4 | 0           | 0    | 12    | 22.2 |     |
|                      | Joint ventures     | 3           | 37.5 | 0           | 0    | 1           | 12.5 | 0           | 0    | 1           | 12.5 | 2           | 22.2 | 0           | 0    | 7     | 13.0 |     |

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|                          |                          |   |      |   |      |   |      |   |      |   |      |   |      |   |      |    |      |
|--------------------------|--------------------------|---|------|---|------|---|------|---|------|---|------|---|------|---|------|----|------|
|                          | Distributors             | 1 | 12.5 | 1 | 16.7 | 2 | 25   | 1 | 16.7 | 0 | 0    | 3 | 33.3 | 2 | 22.2 | 10 | 18.5 |
|                          | Subcontracting           | 4 | 50   | 0 | 0    | 0 | 0    | 1 | 16.7 | 2 | 25   | 0 | 0    | 1 | 11.1 | 8  | 14.8 |
| <b>Market Selection</b>  | Nearby Regions Only      | 4 | 50   | 3 | 50   | 5 | 62.5 | 1 | 16.7 | 6 | 75   | 5 | 55.6 | 1 | 11.1 | 25 | 46.3 |
|                          | Nearby & Faraway Regions | 4 | 50   | 3 | 50   | 3 | 37.5 | 5 | 83.3 | 2 | 25   | 4 | 44.4 | 8 | 88.9 | 29 | 53.7 |
| <b>Number of Markets</b> | 1 to 5 markets           | 2 | 25   | 2 | 33.3 | 3 | 37.5 | 2 | 33.3 | 6 | 75   | 5 | 55.6 | 4 | 44.4 | 24 | 44.4 |
|                          | 6 to 10 markets          | 5 | 62.5 | 1 | 16.7 | 2 | 25   | 2 | 33.3 | 1 | 12.5 | 3 | 33.3 | 4 | 44.4 | 18 | 33.3 |
|                          | 11 to 15 markets         | 0 | 0    | 1 | 16.7 | 3 | 37.5 | 1 | 16.7 | 0 | 0    | 1 | 11.1 | 1 | 11.1 | 7  | 13.0 |
|                          | 16 to 20 markets         | 0 | 0    | 0 | 0    | 0 | 0    | 1 | 16.7 | 0 | 0    | 0 | 0    | 0 | 0    | 1  | 1.9  |
|                          | more than 20 markets     | 1 | 12.5 | 2 | 33.3 | 0 | 0    | 0 | 0    | 1 | 12.5 | 0 | 0    | 0 | 0    | 4  | 7.4  |

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### *Market Selections*

When responding to where or which markets the firm was involved with, the SME key executives mentioned specific but numerous countries. The market selections were then classified into *nearby regions only* (46%) and *nearby and faraway regions* (54%). The ‘Nearby Regions’ including countries in regional areas of Southeast Asia, South Asia and East Asia, Australia and New Zealand. The ‘Faraway Regions’ included countries such as the United State of America and Canada, the United Kingdom, Europe, the Middle East and Africa. All the seven industries marketed their products in dual regions, but each exhibited different levels of merit. For example, the *nearby regions* were mainly favored by the Transport & Machinery, Biotechnology & Herbal and Food & Beverages Industries. The *nearby and faraway regions* were choices for the Rubber & Plastic-based and Wood-based & Furniture Industries, whereas both the Electrical & Electronics and Agro Manufacturing firms demonstrated equal preference for the two regions.

### *Number of Markets*

To identify the number of markets they participated in, respondents were asked “*How many markets (or countries) is your company involved with?*” The answers were supplemented with information provided on their websites and information obtained from the MATRADE 2006 and FMM 2006 directories. Overall, 77% of the participating SMEs ventured into *1 to 10 markets* all over the world, 15% internationalized into *11 to 20 markets* and 8% into more than 20 markets. All seven industries demonstrated that their SME operated in *1 to 10 countries*. Five industries (the AG, FB, RP, BH and WF) chose to do business in *11 to 15 markets*. Only the Rubber & Plastic-based ventured into *16 to 20 countries*. Three industries, the Electrical & Electronics, Agro Manufacturing and Transport & Machinery contained firms that operated in *more than 20 international markets*.

### **Distinctive Features of Dimensions of Internationalization in Manufacturing Industries**

Based on previous analysis that was compared to the conceptual framework, we have carried out an in-depth comparison of dimensions of internationalization amongst the manufacturing SMEs in seven industries. By doing this, it allowed us to determine distinctive features of dimensions of internationalization, shown in Table 7. These pertinent findings are discussed further in the following section. The findings are compared to the past literature where possible. The discussion provides us avenues to suggest some propositions related to the five dimensions of SME internationalization focusing on the manufacturing industries.

**Table 7 Distinctive Features of Dimensions of Internationalization in Various Industries**

| INDUSTRY                         | DIMENSIONS  |  |  |  |   |
|----------------------------------|---|--|--|--|---|
|                                  | APPROACHES  |  | ENTRY MODE   | MARKET SCOPE   |   |
|                                  | Pace  | Pattern  | Foreign Entry Mode   | Market Selection   | Number of Markets   |
| Electrical & Electronics<br>(EE) | <ul style="list-style-type: none"> <li>Mixed paces - Fastest to slowest;</li> <li>Very early to late global players</li> <li>↑- 1 to 5 years (75%)</li> </ul>                   | <ul style="list-style-type: none"> <li>All 3 patterns exist - Rapid, Traditional then Born-Global;</li> <li>Generally, EE industry follows the Rapid pattern</li> <li>↑- <i>Rapid Pattern (63%)</i></li> </ul>   | <ul style="list-style-type: none"> <li>3 modes used - Subcontracting, joint ventures then distributors</li> <li>High to low commitment;</li> <li>Strong evidence of subcontracting.</li> <li>↑- <i>Subcontracting (50%)</i></li> </ul>                         | <ul style="list-style-type: none"> <li>Equally covered the world regions;</li> <li>Physical distant &amp; close markets;</li> <li>No physic distance.</li> </ul> | <ul style="list-style-type: none"> <li>Average in less than 10 markets</li> <li>Also evidence in more than 20 markets</li> <li>↑- <i>6-10 markets (63%)</i></li> </ul>                                  |
| Agro Manufacturing<br>(AG)       | <ul style="list-style-type: none"> <li>Mixed paces - Fastest to slowest;</li> <li>Very early to late global players</li> <li>↑- 1 to 5 years and 6 to 10 years (66%)</li> </ul> | <ul style="list-style-type: none"> <li>2 patterns exist - Traditional then born global;</li> <li>Generally, AG industry follows the Traditional pattern;</li> <li>↑- <i>Traditional Pattern (67%)</i></li> </ul> | <ul style="list-style-type: none"> <li>3 modes used - Direct exporting, agents then distributors;</li> <li>Simple or Low commitment mode;</li> <li>Strong evidence of direct and indirect exporting modes</li> <li>↑- <i>Direct Exporting (50%)</i></li> </ul> | <ul style="list-style-type: none"> <li>Equally covered the world regions;</li> <li>Physical distant &amp; close markets;</li> <li>No physic distance.</li> </ul> | <ul style="list-style-type: none"> <li>Diverse number of markets;</li> <li>Overall in 1 to 15 markets;</li> <li>Strong evidence in more than 20 markets</li> <li>↑- <i>1-5 markets (66%)</i></li> </ul> |
| Food &                           | <ul style="list-style-type: none"> <li>Mixed paces - Fast to</li> </ul>   | <ul style="list-style-type: none"> <li>All 3 patterns exist - Traditional, rapid then</li> </ul>   | <ul style="list-style-type: none"> <li>4 modes used - Agents, direct</li> </ul>  | <ul style="list-style-type: none"> <li>Higher in the nearby regions</li> </ul>   | <ul style="list-style-type: none"> <li>Moderate number of</li> </ul>  |

|                                |   |   |  |   |  |
|--------------------------------|---|---|--|---|--|
| Beverages<br>(FB)              | <p>slowest;</p> <ul style="list-style-type: none"> <li>• Early to late global players</li> <li>• ↑- 1 to 5 years (38%)</li> </ul>                                     | <p>born global;</p> <ul style="list-style-type: none"> <li>• Generally, FB industry follows the Traditional pattern</li> <li>• ↑- <i>Traditional Pattern</i> (63%)</li> </ul>   | <p>exporting, distributors then joint ventures;</p> <ul style="list-style-type: none"> <li>• Low to high commitment mode;</li> <li>• Strong evidence of direct and indirect exporting modes.</li> <li>• ↑- <i>Agents</i> (38%)</li> </ul>  | <p>only;</p> <ul style="list-style-type: none"> <li>• Proximity markets;</li> <li>• Social and culture effects;</li> <li>• Evidence of physic distance</li> </ul>   | <p>markets;</p> <ul style="list-style-type: none"> <li>• Overall in 1 to 15 markets.</li> <li>• ↑- 1-5 and 11-15 markets (76%)</li> </ul>  |
| Rubber & Plastic-based<br>(RP) | <ul style="list-style-type: none"> <li>• Two paces - Fastest to slower rate;</li> <li>• Very early to late global Players</li> <li>• ↑- 1 to 5 years (83%)</li> </ul> | <ul style="list-style-type: none"> <li>• 2 patterns exist – Rapid followed by Traditional</li> <li>• Generally, RP industry follows the Rapid pattern</li> <li>• ↑- <i>Traditional Pattern</i> (63%)</li> </ul>                   | <ul style="list-style-type: none"> <li>• 4 modes used - Direct exporting, agents &amp; distributors then subcontracting;</li> <li>• Low to high commitment mode;</li> <li>• Strong evidence of direct and indirect exporting modes.</li> <li>• ↑- <i>Direct Exporting</i> (50%)</li> </ul> | <ul style="list-style-type: none"> <li>• Very high in the nearby &amp; faraway regions;</li> <li>• Physically distant markets;</li> <li>• Niche products – Follow</li> <li>• conscious customers;</li> <li>• No evidence of physic distance.</li> </ul> | <ul style="list-style-type: none"> <li>• High number of markets;</li> <li>• Overall in 1 to 20 markets</li> <li>• ↑- 1-10 markets (66%)</li> </ul>   |
| <b>Continued</b>               |   |   |  |   |  |
| Transport & Machinery<br>(TM)  | <ul style="list-style-type: none"> <li>• Two fast paces;</li> <li>• Very early to early global players</li> <li>• ↑- 6 to 10 years (75%)</li> </ul>                   | <ul style="list-style-type: none"> <li>• All 3 patterns exist - Traditional, Rapid, then born global;</li> <li>• Generally, TM industry follows the Traditional pattern</li> <li>• ↑- <i>Traditional Pattern</i> (63%)</li> </ul> | <ul style="list-style-type: none"> <li>• 4 modes used - Direct exporting, agents, subcontracting then joint ventures.</li> <li>• Low to high commitment mode.</li> <li>• Strong evidence of mixed modes</li> <li>• ↑- <i>Direct Exporting</i> (38%)</li> </ul>                             | <ul style="list-style-type: none"> <li>• Higher in the nearby regions only;</li> <li>• Proximity markets;</li> <li>• World competitive industry – Require International standards;</li> <li>• Follow anchor company.</li> </ul>                         | <ul style="list-style-type: none"> <li>• Less number of markets;</li> <li>• Strong evidence in 1 to 5 markets;</li> <li>• Also evidence in more than 20 markets</li> <li>• ↑- 1-5 markets (75%)</li> </ul> |

|                                |   |   |   |  |  |
|--------------------------------|---|---|---|--|--|
|                                |   |   |   |  |  |
| Biotechnology & Herbal<br>(BH) | <ul style="list-style-type: none"> <li>• Two fast paces;</li> <li>• Very early global players.</li> <li>• ↑- 1 to 5 years (56%)</li> </ul>                | <ul style="list-style-type: none"> <li>• All 3 patterns exist - Traditional, rapid then born global;</li> <li>• Generally, BH industry follows the Traditional, then the Rapid patterns</li> <li>• ↑- <i>Traditional Pattern</i> (44%)</li> </ul> | <ul style="list-style-type: none"> <li>• 3 modes used – Agents, Distributors then joint ventures;</li> <li>• Low to high commitment mode;</li> <li>• Strong evidence of indirect exporting mode.</li> <li>• ↑- <i>Agents</i> (44%)</li> </ul>                 | <ul style="list-style-type: none"> <li>• Both regions, but a little high in the nearby regions only;</li> <li>• Deal with health-related products;</li> <li>• Grant medical or health certification from home &amp; host countries;</li> <li>• Niche products – targeted countries.</li> </ul> | <ul style="list-style-type: none"> <li>• Moderate number of markets;</li> <li>• Overall in 1 to 10 markets;</li> <li>• Weak evidence of 11 to 15 markets.</li> <li>• ↑- <i>1-5 markets</i> (50%)</li> </ul>          |
| Wood-based & Furniture<br>(WF) | <ul style="list-style-type: none"> <li>• 3 sequential paces;</li> <li>• Very early to moderate global players</li> <li>• ↑- 1 to 5 years (44%)</li> </ul> | <ul style="list-style-type: none"> <li>• All 3 patterns exist - Traditional, rapid then born global;</li> <li>• Generally, WF industry follows the Traditional patterns</li> <li>• ↑- <i>Traditional Pattern</i> (56%)</li> </ul>                 | <ul style="list-style-type: none"> <li>• 3 modes used - Direct exporting, distributors then subcontracting</li> <li>• Low to high commitment mode</li> <li>• Strong evidence of direct exporting mode.</li> <li>• ↑- <i>Direct Exporting</i> (67%)</li> </ul> | <ul style="list-style-type: none"> <li>• Very high in the nearby &amp; faraway regions;</li> <li>• Physically distant markets;</li> <li>• Niche products – Follow conscious customers;</li> <li>• Follow partners;</li> <li>• No physic distance.</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Moderate number of markets;</li> <li>• Strong evidence of 1 to 10 markets;</li> <li>• Weak evidence of 11 to 15 markets.</li> <li>• ↑- <i>1-10 markets</i> (85%)</li> </ul> |

**Key:** (↑ indicates the highest level of each dimension in each industry)

## Discussion

This paper has investigated the dimensions of internationalization included pace, pattern, foreign entry mode and market scope (market selection and number of markets) of various SME manufacturing industries in Malaysia. From our cross-comparison, our results indicate distinctive features of dimensions of internationalization in different manufacturing industries as summarized in Table 7. These distinctive features together with the demographic data, (i.e. firm size, business type, ownership status, firm establishment and ethnic of firm) are discussed further in this section.

## Propositions Development

Based on the analysis and interpretation, we formulate research propositions suggesting conditions of each dimension under which the associations are more likely to happen amongst different industries. The findings and the propositions formulated in this study make a contribution to the theoretic discussion on the internationalization process in particular on the dimensions of internationalization. The dimensions are discussed accordingly.

### *Pace of Internationalization*

The analysis of findings shown in Table 6 reveals that the seven industries in the SME manufacturing sector follow mixed paces for internationalization. Almost 82% were found to internationalize at faster paces, after *1 to 10 years* of firms' establishment, as seen in the Rubber & Plastic-based, Electrical & Electronics, Transport & Machinery and Wood-based & Furniture industries. It was found that majority of the SMEs are involved with the government industrialization programs. This linked them to the vendors or subcontracting systems, which in turns shorten their internationalization pace as they would follow the movement of their parent or anchor companies. Interestingly, this study found that all the SMEs in the Biotechnology & Herbal industry internationalize very fast. The reason being is this industry has received more attention by the Malaysian government. For instance, Biotech products that recently have been given emphasis in the country have caused the establishments of many new venture SMEs, which was suggested earlier by Zahra, Ireland & Hitt (2000). Meanwhile, herbal products that have been produced traditionally as a backyard industry, has transformed into a more sophisticated operations. This is due to the change of global perspective towards these products, which in turns has shifted the mindset of the herbal producers to embark into international markets as well as shaping them towards innovations and entrepreneurial orientations. This is in line in other studies (Chetty & Campbell-Hunt 2004; Bell et al. 2003; Sarkar, Echambadi & Harrison 2001). The evidences confirm that technology and knowledge are the catalysts for the SMEs to shorten the pace of internationalization, which support

previous findings (Crick & Spence, 2005; Nummela, Saarenketo, & Puumalainen, 2005; Jones 2001; Autio & Sapienza, 2000). Accordingly, we suggest these propositions:

**P1: The more SMEs involve in the government industrialization programs, the less the type of industry affects the pace of internationalization.**

P1a: SMEs in the industries that link to the Government Linkages Programs are more likely have shorter pace of internationalization.

P1b: SMEs in the industries that produce high technology-based products are more likely have shorter pace of internationalization, *except* if they have foreign partners in other countries.

P1c: SMEs in the industries that commit in higher commitment modes such as subcontracting are more likely have shorter pace of internationalization.

P1d: SMEs in the industries that produce customized products are more likely have shorter pace of internationalization.

*Patterns of Internationalization*

The analysis in Table 6 indicates that the seven industries in the SME manufacturing sector follow different patterns of internationalization, such as *traditional* (50%), *rapid* (35%) and *born-global* (15%). It is noted that product characteristics, business type and ownership affect the patterns of internationalization. For instance, some knowledge-intensive and high technology-based SMEs as seen in the Electrical & Electronic, Rubber & Plastic-based and Biotechnology & Herbal industries internationalized more at the *rapid* than the *born-global* patterns. There was evidence of the *born-global pattern* in all industries, except for the Rubber & Plastic-based industry. We found similar characteristic that enables the SMEs to pursue these two patterns; they are the knowledge-intensive and high technology-based firms. This indicates that these criteria are important in accelerating the internationalization process, and this is consistent with previous studies (Kuivalainen, Sundqvist & Servais 2007; Sharma & Blomstermo 2003; Almor & Hashai 2004; Jones 1999). As expected, the pattern of internationalization process will be improved (for instance from *gradual* to *rapid* pattern) when the SMEs are linked to the government industrialization programs. The study indicates that the SMEs in the Food & Beverages and Transport & Machinery industries that initially ventured out via the *traditional* pattern have shifted into the *rapid* pattern due to the government linkages programs. In addition, partnership and global network enable the SMEs to pursue the *born-global* pattern (Zahra, Neubaum & Naldi 2007). It was evident in this study that the SMEs in the Agro Manufacturing and Wood-based & Furniture industries internationalized at inception and/or less than a year due to partnership via the joint ventures

approach. This approach in turns links the Malaysian SMEs to the global network that place the SMEs in better international position. According to Bell, McNaughton & Young (2001), this is the evidence of the ‘born-again global firms’. Previous studies (Vapola, Tossavainen & Gabrielsson 2008; Rialp, Rialp & Knight 2005; Sharma & Blomstermo 2003; Autio, Sapienza & Almeida 2000; Hitt, et. al. 2000) suggest that the born-globals pattern is associated with global networks and alliances, niche markets worldwide, technological developments, and entrepreneurial capabilities. We formulate the following propositions:

***P2: The type of industry affects the patterns of internationalization of SMEs.***

- P2a: SMEs in the industries that produce high technology-based and knowledge-based products are more likely to pursue the rapid or born-global patterns towards internationalization.
- P2b: SMEs in the industries that are less reliance on high-technology products are more likely to pursue the traditional pattern of internationalization.
- P2c: SMEs in the industries that are linked to the government industrialization programs are more likely to shift the pattern from traditional to rapid patterns.
- P2d: SMEs in the industries that collaborate with home country partners are bound to gain global and larger network, thus they are more likely to engage born-again global patterns towards internationalization.

*Mode of Foreign Entry*

This study found that Malaysian SMEs in manufacturing sector entered foreign market using low to high commitments entry modes for internationalization. More than 72% took low commitment of foreign entry modes via direct exporting, agents and distributors. The remaining penetrated international markets using high commitments entry modes including joint ventures and subcontracting. The study found that the business type and product characteristics determined the choice of entry modes in venturing out. The family business SMEs and natural-based products usually use low commitment entry mode, such as direct exporting and agents. This finding is evidence in Graves & Thomas (2008). While the SMEs that linked to ILPs or the GLCs may internationalize via high commitments entry modes, such as subcontracting and joint ventures approaches. Accordingly, we suggest these propositions:

**P3: The type of industry determines the selection of entry mode for SME internationalization.**

P3a: SMEs in the industries that produce natural-based products are more likely to pursue lower commitment of foreign entry modes.

P3b: SMEs in the industries that produce high technology-based products are more likely to pursue higher commitment of foreign entry modes.

P3c: The family business SMEs are more likely to pursue lower commitment entry mode to go international.

### *Market Selection*

In this study, we found that SMEs in various manufacturing industries internationalize at near and farther markets all over the world. This indicates that psychic distance is not an important factor for the Malaysian SMEs to select the markets. This supports the findings in Brewer (2001) who found similar situation on Australian firms' international market selection. However, there were evidences of SMEs in the Food & Beverages industry that preferred to select particular markets due to cultural similarities and market familiarities. These findings are consistent with past literature on the market selection criteria (Che Senik 2010; Van der Sijde, Wakkee & Kirwan 2004; Cicic, Patterson & Shoham 1999; Edwards & Buckley 1998). In the context of Malaysian SMEs, the main reason for selecting proximity markets was to fulfill the customers' demands and needs, such as the demand of 'halal' products by many Muslim countries all over the world. By selecting proximity markets, the SMEs require less effort, time and cost to learn about new markets, which in turns heighten the process of internationalization. This is in line with Hitt, Franklin and Zhu (2006) who suggested that the choice to enter new international markets is associated with the knowledge about foreign markets. The study also revealed that the Government supports programs have helped firms to identify market. For instance, when the SMEs registered with the government supporting agencies, such as Small and Medium Industries Development Corporation (SMIDEC) and Malaysia External Trade Development Corporation (MATRADE), it assist them to especially in their development and expansion in the new markets, which is in line with the studies by Brewer (2001). Accordingly, we suggest these propositions:

#### **P4: The type of industry does not determine the market selections for SME internationalization.**

P4a: SMEs in the industries that produce similar products are more likely to penetrate into proximity markets.

P4b: The more similar the cultures, the more likely the SMEs to penetrate into proximity markets.

P4c: The less the knowledge required about the new markets, the more likely the SMEs to penetrate into those markets.

P4d: SMEs in the industries that are familiar to certain countries are more likely to penetrate into proximity and distance markets.

P4e: The higher the involvement with the government, the bigger the opportunities for the SMEs to identify better markets.

### *Number of Markets*

In this study, we found that SMEs in various manufacturing industries penetrate into at least 3 to more than 20 markets. One commodity-based product SME in the Agro Manufacturing industry penetrated into up to 40 countries. This is due to the collaborative arrangement between local and foreign partners. According to Van der Sijde, Wakkee and Kirwan (2004), having formal and informal networking such as with agents and customers allow the SMEs to engage in a wide number of regions in the world (Brewer 2001, Che Senik et al., 2010). In addition, the criteria of global product that met the international standards and requirements have increased the consumption of particular products in wider markets, which in turn increase the chances for the SMEs to enter into new markets. This is in line with the findings from Ibeh and Young (2001) and Che Senik (2010). Accordingly, we suggest these propositions:

### **P5: The type of industry enables an SME to penetrate into wider markets internationally.**

P4a: SMEs in the industries that have collaboration with foreign partners are more likely to cover wider international markets.

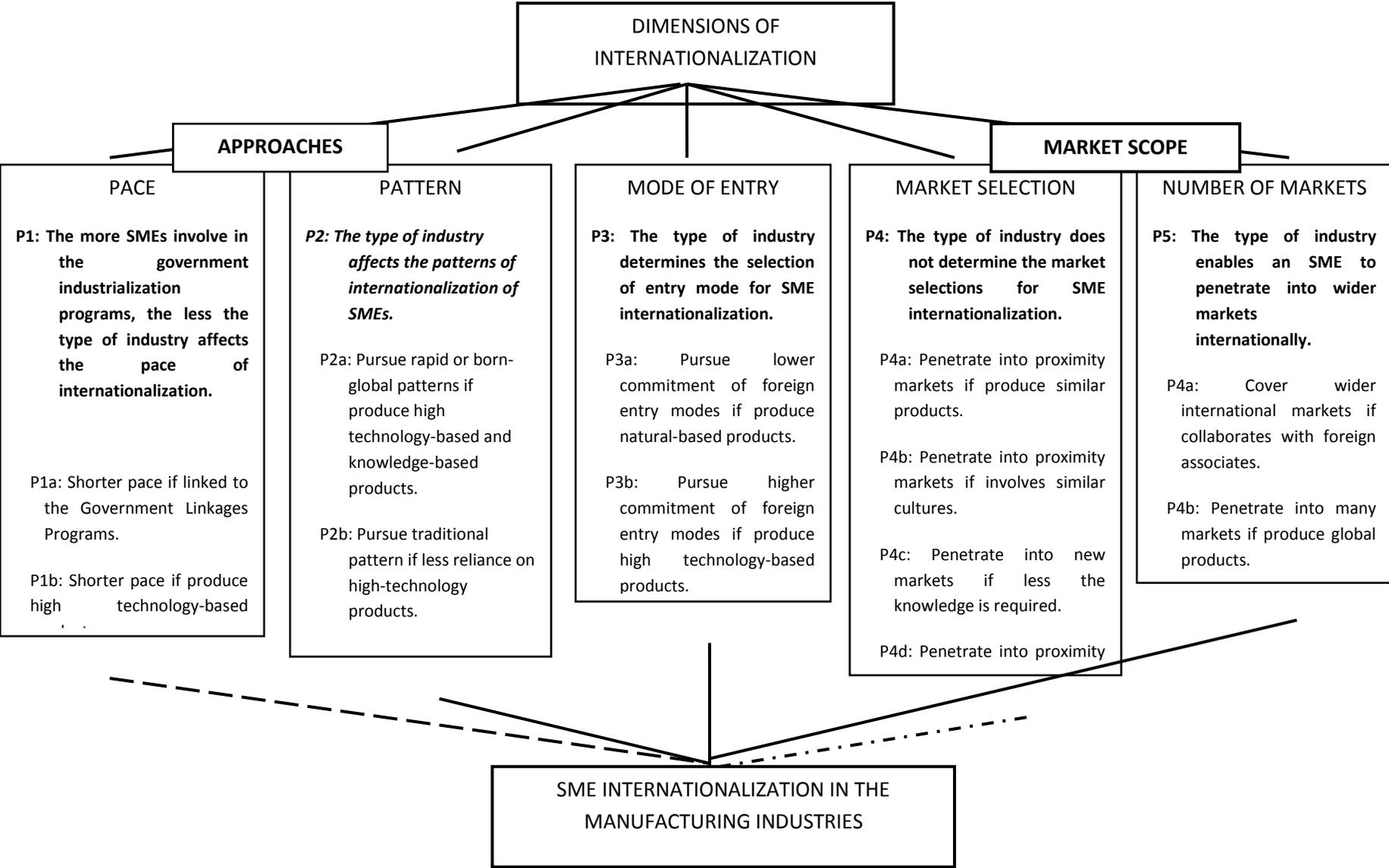
P4b: SMEs in the industries that produce global products are more likely to penetrate into many markets.

P4c: The more the SMEs meet the international standards and requirements, the more likely they have wider international markets coverage.

### **Study's Propositions According to Internationalization Dimensions**

Based on the above discussions and the formulation of a series of propositions on each dimensions, we propose a framework of the SME internationalization in manufacturing industries in Malaysia. Figure 2 illustrates the conceptualized framework of our study.

**Figure 3: Study's Propositions According to Internationalization Dimensions**





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## CONCLUSIONS AND IMPLICATIONS

This paper has sought to enhance understanding of the dimensions of internationalization in Malaysian SMEs manufacturing industries. This study has attempted to provide a better conceptualization and understanding of the dimensions of SMEs internationalization. It addressed the gap suggested by Hagedoorn and Duysters (2002) that fresh empirical contextual evidence surrounding the wide range of manufacturing industries in developing and emerging economies is still limited.

From our cross-comparison, the key finding of this study is the identification of distinctive features of dimensions of internationalization in different manufacturing industries. This study has confirmed that high-technology and knowledge-intensive SMEs have high advantages towards internationalization. Due to this criteria, industries with this characteristic are more likely to be in better position to venture out successfully. Engagement with the Government bodies is also a key point to initiate into foreign markets. In addition, it enables the SMEs to accelerate the process of going international. Collaboration with foreign partners or business associates is a key enabler to penetrate into a wider market. Moreover, similarities in cultures and meeting international standards and requirements enhance the chances to embark into international operations.

Results from this study will provide policymakers and practitioners with additional insights into the internationalization process of SMEs especially issues associated with the dimensions such as pace, pattern, mode of entry and market scopes. By understanding the factors that affect the dimensions, policymakers such as the government should support to assist the SMEs in their process to internationalize (Che Senik 2010; Brewer 2001). We believe that through exposure, awareness, training, seminars and networking, the internationalization process of Malaysian SMEs can be heightened. In line with this, practitioners who want to embark into international markets, they have to seek for and identify the international opportunities. They should be proactive in searching for the chances to internationalize. The SMEs also must be innovative and creative in offering high quality products that need the demands of foreign customers. Moreover, they need to understand the necessary policies and requirements to ease the process of going international.



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## **INTELLECTUAL PROPERTY AND ENTREPRENEURSHIP: TILL DEATH DO THEY PART**

Associate Prof. Rohazar Wati Zuallcobley  
Mohd. Zawawi Awang Nik

### **Abstract**

Small and Medium enterprise company in Malaysia are the backbone of the Malaysian economy. These entrepreneurs are company that either have a minimum of 3 employee or more than 15 employee and yet they contributed to more than 90% GDP. Each year new products and services are introduced into the commercial market by such entrepreneurs. Yet one glaring issues is whether these market entrants understand the role of intellectual property and its importance in providing legal protection for the entrepreneurs who are involved in innovative product either by way of themselves making such product or merely licensing for purposes of commercialization. Intellectual property which comprises on copyright, trade mark. Patent, industrial designs, confidential information and trade secret, geographical indication and plant varieties gave various protection that cannot be denied by the entrepreneurs. This paper will enlightened the audience on the role played by intellectual property in giving such support and protection that are accorded by the Malaysia legal system for intellectual property .



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## INNOVATION-BASED ENTREPRENEURSHIP IN JAPANESE LOCAL SMES

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### <Abstract>

#### **Objectives:**

By the development of globalisation, active companies try to go into the global market. In case of local SMEs, founders' entrepreneurship is one of key for their success. And it is recognized worldwide that global competitiveness in the 21st century rests on innovation, in addition to the knowledge and the skills of the workforce. This paper will look into the knowledge creation in Japanese Local SMEs.

#### **Theoretical Background/Previous Practice:**

The products coming from Japan are greeted with scepticism in the western world where "Made in Japan" has been related to cheap and mediocre products since WWII and several international economic crises. But in a very impressive way they have managed to survive the crises and get out on the other side even stronger. Discussions, explanations and theories of this success have been many. Of these, Takeuchi and Nonaka (Nonaka, 2005; Nonaka & Takeuchi, 1986, 1995) highlight Japanese companies' skills to use and focus their product development on the externalization of tacit knowledge within the organizations. However, Japanese local SMEs founders' entrepreneurship is not enough analysed.

#### **Approach/Methods:**

In this paper, in depth case analyses are conducted about three founders; Kanichi Nishimoto of NORITSU KOKI, Masahiro Shima of SHIMA SEIKI, and Keiji Saika of TOYO RICE. As technology-oriented founders, Konosuke Matsushita (founder of MATSUSHITA, now PANASONIC) and Soichiro Honda (founder of HONDA) are analysed often in Japanese companies. The founders of these three companies are inaugurating their enterprise in the same local city as Konosuke Matsushita.

<Notes> NORITSU KOKI: <http://www.noritsu.co.jp/english/company/>  
SHIMA SEIKI: <http://www.shimaseiki.com/>



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TOYO RICE: <http://www.toyo-rice.jp/english/about3.html>

### **Results/Insights:**

The tentative result shows that founders' innovation and entrepreneurship were key impelling force to growth of SMEs, and then knowledge management of production within firm are effective to further development.

### **Implications:**

The result is limited from only three cases, but further detailed analysis is preparing based on this.

**Keywords:** Innovation, Entrepreneurship, SMEs (small and medium sized enterprises), Knowledge Management, Competitive Advantage, Core Competence

## **1. Introduction**

The recognition of importance on small and medium-sized enterprises (SMEs) in economic growth has made them a central element in much recent policymaking both in developed and developing countries. For policy makers, their particular interests have been policies designed to promote and facilitate the operation of the innovation process within SMEs, and there has been substantial expansion of this kind of effort (Foreman-Peck et al. 2006). And for business leaders, their interests are how to enhance the innovation within SMEs and /or small organization. Despite those interests, the knowledge base about how SMEs actually undertake innovative activities remains limited.

In case of local SMEs, founders' entrepreneurship may be one of key for their success. Especially in the stage of start-up period of venture business, in addition to founders' entrepreneurship, his /her innovative mind may influence to the success. And later, the knowledge of organisation may act substantial influence to the success.

This paper will look into the innovation in Japanese Local SMEs entrepreneurship, which did not analyse enough. This will be some examples for further discussion. Introducing Japanese Local SMEs here are three companies and those founders in Wakayama, where Konosuke Matsushita (founder of MATSUSHITA, now PANASONIC) was born and grew up.

## **2. Previous Literatures**

### **2.1 Discussion on Innovation**

Innovation is a key success factor in a firm's competitiveness, and then its future. Technological innovation is unavoidable for firms which want to develop and maintain a competitive advantage and/or gain entry in to new markets (Becheikh et al. 2006).

There are some arguments on Innovation in manufacturing SMEs as shown below;

- (1) What drives manufacturing SMEs to technologically innovate?
- (2) Do SMEs necessarily engage themselves in product innovations or process innovations, or both?
- (3) Are innovations likely to be an important determinant of their success?
- (4) What do innovative SMEs achieve?
- (5) The smaller the firm size, the more flexibility the firm might have. Is it true?
- (6) And so on.

There might be more discussion points. Bala Subrahmanya et al. (2010) well summarized by using current literatures. The list (alphabetical order) of current literatures is as shown in Table 1. They proposed the model of “Innovation and Growth of SMEs” as shown in Figure 1.

**Table 1 Current literatures on Innovation of SMEs**

Bala Subrahmanya (2001), Becheikh et al. (2006), Burrone and Jaiya (2005),

Chaminade and Vang (2006), Chanaron (1998), Coad and Rao (2008),

Cosh and Hughes(1996), Danneels and Kleinschmidt (2001), Edwards et al. (2001),

Engel et al. (2004), Harrison and Watson (1998), Hoffman et al. (1998),

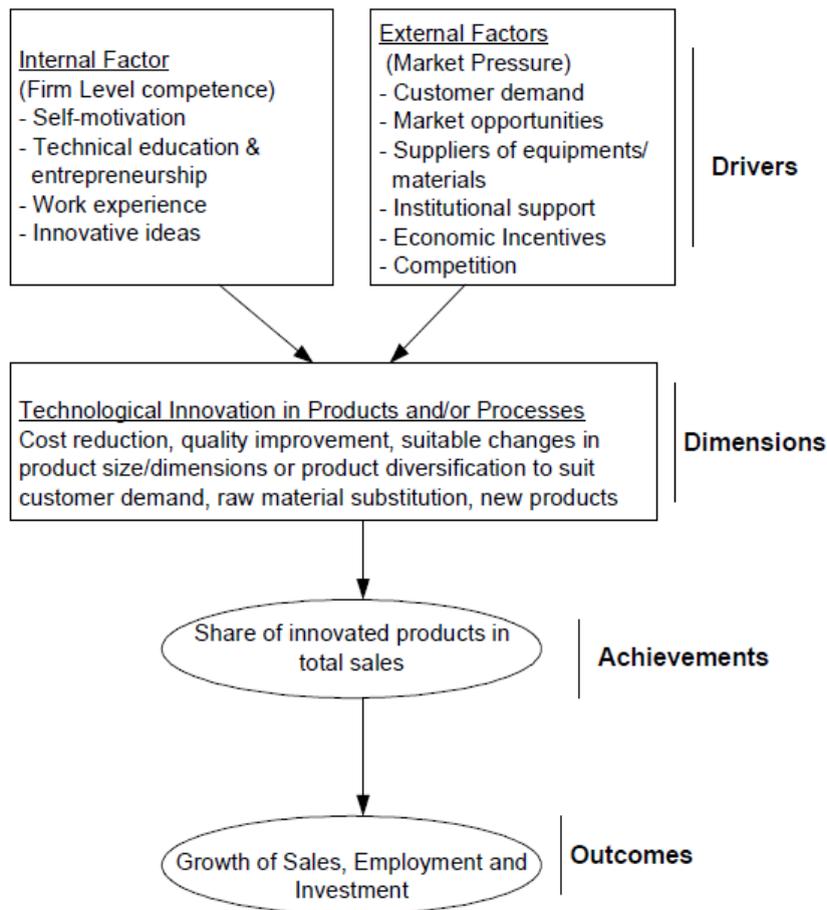
Lee (1998), Lehtimaki (1991), Lumiste et al. (2004),

Martinez-Ros (1999), Reid (1993), Roper (1997),

Ussman et al. (2001), Vonortas and Xue (1997),

**Source:** Bala Subrahmanya et al. (2010)

**Figure 1: Innovation and growth of SMEs**



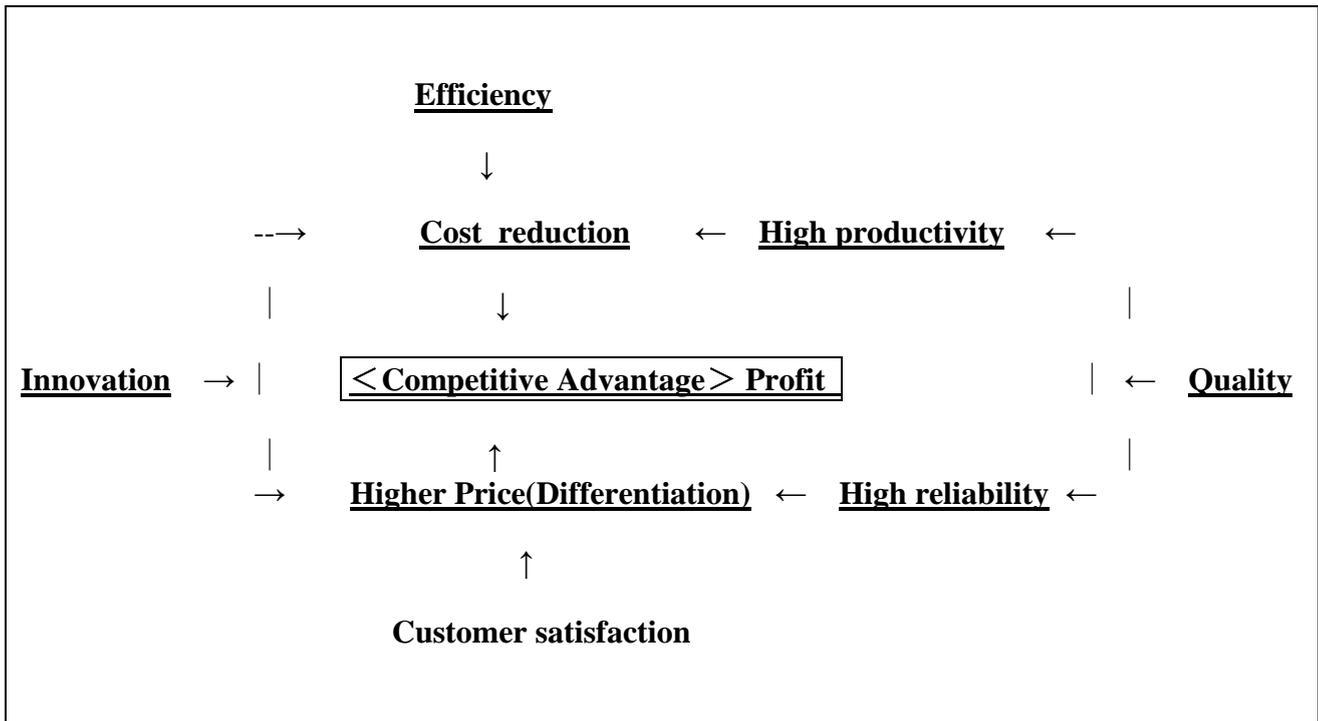
**Source:** Bala Subrahmanya et al. (2010)

Figure 1 shows good suggestion for us for further research. Although we will use this model for coming questionair servey, more simplified version in the next section will be used in this paper.

## 2.2 Profit from innovation

For obtaining a competitive advantage, which lead profit for a firm, there are a cost cut and/or differentiation. As shown in Figure 2, the methods of making it possible include (1) efficiency, (2)quality, (3)innovation, and (4) customer satisfaction.

## Figure 2 Value Creation and Competitive Advantage



Source : Takagaki (2008, p.81, Weele and Hunger (2002)

### (1) Efficiency

After a company obtains management resources (human, material, money, and tacit knowledge; input) from the outside, it produces a product (throughput) and sells a product in a market (output). Efficiency is a ratio of output/input, and it contributes to a cost cut.

The efficiency of the whole company is decided by total of the efficiency in each section (organization), such as supply, production, a physical distribution, and marketing. For example, the efficiency in a processing sector, such as manufacturing sector (a factory), improves in accordance with economies of scale and an experience curve.

### (2) Quality

It includes the quality of product and/or service, and is dependent on the sense of the employee who carries out business. The merit of quality has two aspects. First, if quality improves, manufacturing efficiency also improves, and a cost cut is realized, and eventually profit increases. Second, if quality improves, the reliability of goods improves, and a high price can be admitted by customers, and eventually profit goes up.

Thus, improvement of quality attracts attention as a method of obtaining two or more competitive advantages.

### (3) Innovation

An innovation is what changes a conventional management solution and product into a completely different and epoch-making situation. A product, a process of manufacturing, a managerial system, a form of organization, the strategy developed by the company etc. are included. An innovation makes possible differentiation (which allows high price by raising a consumer surplus) by the novel nature -- and it approves and brings a company profits. Moreover, profits will be brought to a company if a cost cut is realizable by an epoch-making method. Although all innovations are not successful, an innovation is somehow unique to a company and imitation is difficult for it for a competitor in many cases. An innovation is utilized for a cost cut and differentiation.

### (4) Customer satisfaction

In order to obtain customer satisfaction, the company has to do better work, being conscious of a competitor so that a customer may be satisfied. Then, high value will be found out with a product by customers, this will be differentiated, and the company will have a competitive advantage. It is differentiation to newly offer the product, and on the other hand, raising the quality of the existing product line is also differentiation. It can be said that customer satisfaction has a relation which suits mutually in relation to improved quality or an innovation.

Furthermore, the correspondence (customization) to the unique needs for an individual or a group customer is also customer satisfaction.

Moreover, the correspondence time (response time) to a customer is also customer satisfaction, and not only the time required but the timing of delivery is contained in this. Such services are developed in parcel delivery service. Outstanding design, service, after-service are effective in customer satisfaction. These not only serve as the origin of differentiation, but make possible construction and the price with premium of the brand image of goods.

## **2.3 Competitive Advantage of Product and Process**

As discussed in 2.1 and 2.2, product and/or process innovation is Competitive Advantage. Table 2 shows the competitive advantage both in product and production.

From the discussion of 2.1 and 2.2 including Figure 2, we propose simple version of analytical flame-work.

In early stage of business, we will discuss on (1) the purpose of development, (2) customer's advantage, (3) Inventor's idea and knowledge. And in growing stage of business, we will discuss

on (1) the purpose of development, (2) customer's advantage, (3) Inventor's, and (4) Obtaining Competitive advantage.

**Table 2 Competitive Advantage of Product and Process**

|  | <b>Competitive Advantage</b>            |
|--|---|
| <u>Product</u>                             | low cost                                |
|  | high quality                            |
|  | high efficiency                         |
|  | high scarcity                           |
|  | attractive design                       |
|  | durability                              |
|  | low possibility of imitation            |
| <u>Production</u><br>Machine /<br>facility | capable to produce high quality product |
|  | high speed of production                |
|  | low production (operation) cost         |
|  | less necessity of special skill         |
|  | high durability                         |
|  | ease of a maintenance                   |

Source : Takagaki (2012)

### 3. The subject of research and Method of Analysis

### 3-1 The subject of research

#### (1) Outline of company and founders

In this essay, in depth case analyses are conducted about three founders; (1) Kanichi Nishimoto of NORITSU KOKI, (2) Masahiro Shima of SHIMA SEIKI, and (3) Keiji Saika of TOYO RICE. The simplified personal histories of company and top-managers are summarized to Table 3;

#### (2) The machine production industry and supporting industry around Wakayama

The history of Wakayama, as local industrialized area, can be dated back to the Edo period. Fiber industries (cotton flannel, knitting, etc.), and the machine production and supporting industries have progressed after the Meiji term (19 century). With the development of cotton flannel industry, mechanization was advanced in printing, nap-raising, bleaching processes, and the technology of machine production was improved splendidly there.

Not only textile and fiber-related industry, but also wood working industry, such as saw mill, is developed. Machine technology came to be applied to other machine of other fields as well. The foundry industry, which is mainly concerned with the part manufacturing of a dyeing machine and a knitting machine, was well developed. And the quality of metal-casting also improved, as the textile machine increased to the higher level of domestic industries. Thus, in Wakayama, not only production machine industry but the related supporting industry is formed.

After the world war 2<sup>nd</sup>, machine technology supported with the demand of the flourishing machines production in a textile industry, and has developed favourably.

**Table 3 Corporate profile of three companies**

**(NORITSU KOKI, SHIMASEIKI, and TOYO SEIMAIIKI)**

| Firm    | NORITSU KOKI                 | SHIMA SEIKI               | TOYO SEIMAIIKI         |
|---------|------------------------------|---------------------------|------------------------|
| Founder | <u>Mr. Kanichi Nishimoto</u> | <u>Mr. Masahiro Shima</u> | <u>Mr. Keiji Saika</u> |

|                          |   |   |  |
|--------------------------|---|---|--|
| <p>Corporate profile</p> | <p>NORITSU KOKI Co., LTD.</p> <p>1st section of Tokyo and Osaka Stock Exchange (Code:7744)</p> <p>579-1, Umehara, Wakayama city, Wakayama, 640-8550</p> <p>Establishment: June, 1951</p> <p>Incorporated : June 1965</p> <p>Type of industry: Precision instruments</p> <p>Business: Manufacture and sale of photograph processing quick service system apparatus and peripheral equipment</p> <p>President: Hirotsugu Nishimoto</p> <p>Capital:7,025,302,000 JPY</p> <p>Sales: 27,700 million JPY (consolidated:45,400 million JPY) (Sept, 2009)</p> | <p>SHIMA SEIKI MFG., LTD.</p> <p>1st section of Tokyo and Osaka Stock Exchange (Code:6222)</p> <p>85, Sakada, Wakayama city, Wakayama, 641-8511</p> <p>Incorporated: February 4, 1962</p> <p>Type of industry: Machine</p> <p>Business: Non-sewing knitting horizontal knitters "SWG", such as knitting machine production sale</p> <p>President: Masahiro Shima</p> <p>Capital: 14,859,800,000 JPY</p> <p>Sales: 29,500 million JPY (consolidated: 36,800 million JPY) (March, 2010)</p> | <p>TOYO SEIMAIIKI MFG., LTD.</p> <p>Not listed at Stock Exchange</p> <p>12, Kuroda, Wakayama city, Wakayama 640-8341</p> <p>Incorporated: 1961</p> <p>Type of industry: Machine</p> <p>Business: Food-processing apparatus manufacturing and selling</p> <p>President: Keiji Saika</p> <p>Capital:100,000,000 JPY</p> <p><a href="http://www.toyoseimaiki.co.jp/">http://www.toyoseimaiki.co.jp/</a></p> |
|--------------------------|---|---|--|

|   |  |   |
|---|--|---|
| <p>Net assets: 75,600 million JPY (consolidated: 84,600 million JPY) (Sept, 2009)</p> <p>Gross assets: 81,900 million JPY (consolidated: 96,400 million JPY) (Sept, 2009)</p> <p>Employees: 904 persons (September, 2008)</p> <p>Accounting period: March 31</p> <p>Main stockholder: 42.17% owned by Nishimoto Kosan</p> <p>Group companies: Nishimoto Camera, etc.</p> <p><a href="http://www.noritsu.co.jp/">http://www.noritsu.co.jp/</a></p> | <p>Net assets: 80,400 million JPY (consolidated: 87,400 million JPY) (March, 2010)</p> <p>Gross assets: 98,000 million JPY (consolidated: 110,000 million JPY) (March, 2010)</p> <p>Employees: 1,151 persons (Group: 1,794) (September, 2009)</p> <p>Accounting period: March 31</p> <p><a href="http://www.shimaseiki.co.jp">www.shimaseiki.co.jp</a></p> <p>Group company: Sima fine press, TSM industry, Kainan precision, the Toyobo thread industry, etc.</p> | <p><b><u>Toyo Rice Co., Ltd.</u></b></p> <p>Toyo Rice Co., Ltd.</p> <p>5-10-13, Ginza, Chuo-ku, Tokyo 104-0061</p> <p>Establishment: December, 2004</p> <p>Type of industry: Food Business activity, Rice sale</p> <p>Founder: Keiji Saiga</p> <p>Capital: 100,000,000 JPY</p> <p><a href="http://www.toyo-rice.jp/">http://www.toyo-rice.jp/</a></p> |
| <p><b><u>History</u></b></p> <p>June, 1951-</p> <p>Inaugurated by Kanichi</p>   | <p><b><u>History</u></b></p> <p>February 4, 1962 -</p> <p>Establishment of</p>   |   |

|  |  |  |
|--|--|--|
| <p>Nishimoto.</p> <p>June, 1956 –<br/>Incorporated NORITZ Light Machine Factory</p> <p>November 24, 1961 -<br/>Renamed to Noritsu Koki, Inc.</p> <p>1996 -<br/>2nd section of Osaka Stock Exchange</p> <p>1997 -<br/>1st section of Tokyo Stock Exchange, and Osaka Stock Exchange</p> | <p>SHIMA SEIKI MFG.</p> <p>1965 -<br/>Full automatic glove knitting machine is developed. German Leipzig exhibition gold medal prize award</p> <p>1975 -<br/>Full automatic jacquard gloves.</p> <p>1978 –<br/>SNC (Jacquard computer controlled flat knitting machine is developed.</p> <p>1990 -<br/>2nd section of Osaka Stock Exchange</p> <p>1992 -<br/>Shifted to 1<sup>st</sup> section of Osaka Stock Exchange</p> <p>1995 -<br/>Non-sewing type computer controlled flat knitting machine SWG (whole garment) was</p> | <p><b><u>History</u></b></p> <p>1961 –<br/>Incorporated.</p> <p>1987 –<br/>Commercialized (1) Full automatic machine of measuring and vacuum packaging(multifunctional packer) , and (2) automatic extraction machine of bag storages (auto rack).</p> <p>1990 –<br/>"Degree meter of clever" is developed.</p> <p>1991 -<br/>Entered into rice selling business by "BG wash-free rice".</p> <p>2004 -<br/>Commercialized “Kinme Mai” (Golden Bud Rice).</p> |
|--|--|--|

|                    |  |   |  |
|--------------------|--|---|--|
|                    |  | <p>developed and exhibited at International Textile Machine Trade Fair (ITMA95 Milan holding)</p> <p>1996 -</p> <p>1<sup>st</sup> section of Tokyo Stock Exchange</p>   |  |
| Profile of Founder | <p><b><u>Mr.Kanichi Nishimoto</u></b><br/>(1915 - August 27, 2005)</p> <p>Born in Wakayama city.</p> <p>April, 1943 -</p> <p>Opened photo studio <i>Hokoku</i> (=rewards to country) (in Wakayama), and start camera shop.</p> <p>June, 1951 -</p> <p>Automatic print washer is developed.</p> <p>1956 -</p> <p>NORITZ Light Machine Factory is incorporated.</p> <p>November 24, 1961 - Renamed as NORITU KOKI, Co., Ltd.</p> | <p><b><u>Mr.Masahiro Shima</u></b><br/>(March 10<sup>th</sup>, 1937 - )</p> <p>Born in Wakayama city.</p> <p>Patented a glove knitter, ( In the age of 18, after the graduation from Wakayama prefectural high school of industry).</p> <p>1962 -</p> <p>Foundation of Seiki Seisaku shyo (precision manufacturing factory)</p> <p>Start the develop of automatic glove knitting machine.</p> <p>1965 -</p> <p>A full automatic glove knitting machine is</p> | <p><b><u>Mr.Keiji Saika</u></b><br/>(1934 - )</p> <p>Born in Wakayama city.</p> <p>1949 -</p> <p>Joined food processing machine distributor founded by his father, after graduated from junior-high school.</p> <p>March 1961 -</p> <p>Rice-polishing machine is invented, and started machine business.</p> <p>November 1985 -</p> <p>Incorporated Toyo Seimaiki (Oriental rice-polishing machine factory), and become representative director of</p> |

|      |  |  |  |
|------|--|--|--|
|      | <p>1979 -<br/>High speed automatic photograph processing system (QSS) is developed.</p> <p>August 27, 2005 -<br/>Gone in his age 90.<br/>(Eldest president, and longest president's tenure of 49 yrs in Japan)</p> | <p>developed.</p> <p>1975 Gold medal prize in Leipzig exhibition, German, is received with the edited by the full automatic jacquard gloves machine.</p> <p>1978 --<br/><i>Shima</i> Tronic jacquard computer controlled flat knitting machine (SNC) is developed</p> <p>1995 –<br/>The non-sewing type computer flat knitting machine (whole garment, SWG) is developed</p> | <p>president</p> <p>2005 -<br/>Inaugurated Toyo Rice, and become president and representative director.</p> <p>Chairman of Saika Technical research Centre,<br/>and a member of Management Committee at Wakayama Invention Hall.</p> <p>Motto: "it is go with the flow."</p> |
| Firm | <b>NORITSU KOKI</b>  | <b>SHIMA SEIKI</b>   | <b>TOYO SEIMAIKI</b>   |

Source : Takagaki [2012.3]

### 3-2. Method of Analysis

Our aim is to clear how successful product innovation is at the early stage of their businesses, and how they enhance their process innovation. In the early stage of business, the product innovation is greatly influenced by individual inventor's knowledge level, as well as creativity. And then, in the developing stage of business, the roll of process innovation may progressively

need the accumulated knowledge from organization, in addition, as the knowledge of specific local supporting industry, such as parts and production machines, is increasing markedly.

Three persons, Mr. Kanichi Nishimoto (of NORITSU KOKI), Mr. Masahiro Shima (of SHIMA SEIKI MFG.), and Mr. Keiji Saika (of TOYO RICE), are analyzed. They are inventors, and foundation top-managers respectively.

Specifically, we analysed three firm's tow products in both early stage and developing stage.

Firstly for the NORITST KOKI, we analyzed the photograph print automatic flush machine in early stage, and a high-speed automatic photograph processing system (QSS) in developing stage.

Secondly for SHIMA SEIKI, we analyzed the full automatic glove knitting machine in the early stage, and the non-sewing type computer flat knitting machine SWG (whole garment) in developing stage.

Thirdly for TOYO RICE, we analysed the cereals separating machine (stone omission machine) in early stage, and BG rice-cleaning process in developing stage.

The details are explained in 4, and summarized in Fig-4.

#### **4. Findings: Analysis Result**

The analysis result for development of the successful product at the time of the beginning and business deployment (remarkable progress) is shown in Figure 4.

##### **(1) Mr. Kanichi Nishimoto of NORITSU KOKI**

The development of (1)the automatic print washer and (2)a high-speed automatic photograph processing system (QSS) is as follows respectively.

Mr. Kanichi Nishimoto, who is a founder and inventor, had strong concern on photograph technology. Soon after he joined local photo studio (which his father opened in the city-center of Wakayama city), he put the photographic equipment store side by side. He understood that photo studio needs newest technology and photographic equipment shop can easily access such knowledge through market channel. As an electric power supply situation in Japan is insufficient immediately after the end of the world-war 2<sup>nd</sup>, the flush water after baking fixture of the photographic printing paper often interrupted.

Mr. Nishimoto was a photographer, and since DPE work was done by himself, and was keenly realized the need of some equipment. The photo studios are located all over the country, in even in little towns, but there are very few studios which has communication channel with photographic

equipment manufactures. He talked with some photograph equipment manufactures, and asked to improve the situations, however they did not understand the need which a photographic equipment maker of those days does not notice. He decided to improve by himself. The hint of idea comes from the principle of a water wheel.

The automatic print washer by flush water was invented by Mr. Kanichiro Nishimoto and commercialized in 1951. Although it was the product borne by the device of the spot, the same needs are a national level and were accepted also overseas. It became a best-selling product as an 'automatic print washer' also can be operated in the time of an electric power failure.

This becomes a turning point for Mr. Nishimoto. His company serves as a photographic equipment manufacture maker from a photographic equipment store. NORITZ Light Machine Factory was founded in 1956, reorganization is carried out in NORITSU KOKI, Inc. in 1961.

Although black-and-white DPE was operated at local photo shops (film and camera shops), color DPE need high thchnology by using central rabollatory system which are controlled by major filmmaker. Therefore, local photo shops (film and camera shops) were performing only commission business under large nation-wide filmmakers, such as Fuji Film and Sakura etc.

NORITSU KOKI, as a maker of photographic equipment, developed the monochrome film automatic processor (RF-20E), and it succeeded in automation of the film development process for the first time in the world. The QSS-1 type which will be the starting point of a mini-laboratory 1976 was developed, and the QSS-2 type which will carry by computer control in 1979 and realizes 45 minutes from film development to color print finish. The big echo was called in the United States as a final edition of the automatic processing system of a photograph.

The technical knowledge of a photograph is not necessarily required for local operators, it is epoch-making that there is nothing, not to need effluent treatment, and that even a print is made within 1 hour at a shop front, and it drastically changed DPE business form concentration system (controlled by film maker) to mini-labo system which can be operated by local unskilled photo shops.

Ever since, the NORITSU KOKI Group has held a solid position in the photographic processing business. By taking business globally, NORITSU KOKI has contributed to the development of photography all around the world and become widely known as a top manufacturer of minilab systems.

Today, minilab systems are shrinking because of the development of self-printing system. The group is moving aggressively into new growth areas and restructuring operations with eyes on the future to add "medical care," "environment" and "food" to the company's flagship "imaging" business.

## **(2) SHIMA SEIKI MFG. (Mr. Masahiro Shima)**

The development of (1) the full automatic glove knitting machine, and (2) non-sewing type computerized flat knitting machine SWG(whole garment) is as follows respectively.

A founder, Mr. Masahiro Shima, was helping, from junior high school for one year, in the loom machine and sewing machine repair shop near his house. Since he was working disassembly of a loom, and a re-assembly, he had full knowledge in a mechanical structure. In 1965, at his age of 18, his confidence was given by having invented the knitter of the glove containing rubber. In 1965 at the age of 18, he started his company, for development of a full automatic glove knitting machine. As a maker of a glove knitting machine, SHIMA SEIKI MFG. will develop the machine edited by automatic jacquard gloves in 1975, and developed a jacquard computer controlled flat knitting machine (SNC) in 1978 . It grew up as a leader of textile machine manufactures.

The glove looming business is a leading local industry of Kaiso area (south neighbor of Wakayama). And spinning, fiber textiles, and printing business are leading industry in Wakayama city. Therefore, a fiber related machine makers is located on the outskirts of Wakayama, and south suburbs of Wakayama. Accumulation of fiber rerated industries is also considered to have influenced greatly.

In 1983, SHIMA SEIKI developed total knitting system which can fully operate, in series of computerized motion, from pattern making, programming, knitting, and sewing. The non-sewing type computer flat knitting machine SWG (whole garment) is developed, and a sweater etc. can be knit without a joint in 1995.

Although the glove knitting machine of SHIMA SEIKI MFG. knits up a glove out of a picture drawn without lifting the brush from the paper from one thread, it has the capability to carry out single article manufacture of the sweater. Though SHIMA SEIKI MFG is a machine maker, about 100 apparel designers and about 120 computer technicians are working among 1,200 total workers.

### **(3) TOYO SEIMAIKI SEISAKUSHYO (Mr. Keiji Saika)**

The development of (1)the cerials machine (stone omission machine) , and (2)BG rice-cleaning process are as follows respectively.

After the end of the war 2nd, Mr. Keiji Saika finished compulsory education. Although he was the second son, he was engaged in the rice-processing machine distribution business, which his father started and his elder brother was already joined.

The rice-polishing machine in those days could not fully remove stone contamination. Although there is need to stone-removal, manufactures did not tried to develop any machines. Mr.Saika tried to develop such machine because he had already some knowledge about rice processing machines. By trial-and-error method, the trial product of a rice-polishing machine which removes a pebble is completed. When it is shown to the rice shop of city center, shop owner was surprised. There was a

big echo from a rice-cleaning machine dealer in March, 1961. The Toyo Seimaiki Seisakusyho(Oriental rice-polishing machine factory) was started and manufacture and sale of the rice-polishing machine. He borrows the place for factory which remodeled the house and also the remains of factory. It developed into the rice-polishing machine maker from small rice-polishing machine-related store.

Although it was a substantial founder, Mr. Saika did not join an officer but he concentrated on development of a rice-cleaning related machine as an engineer. Furthermore, the Saika technical research center was founded and it was devoted to research and development.

In 1970s, there is serious water pollution in Seto-naikai (Inland Sea). Fishing industry was damaged by red tide which may cause by the water for washing of rice bran. He thought that rice should not be washed before cooking. Although the system which removes rice bran with rinse water was taken at the beginning, since drainage came out from the rice milling plant, it groped for the system not using water. It hit on an idea of the system which takes rice bran by contact of brown rice. On the basis of thinking, BG non-washing system was developed.

Furthermore, new system which leaves an embryo was developed and sale was started through a subsidiary of TOYO RICE. Rice embryo and bran contains a lot of nutritive substances, new rice are now marketing as “Kinme Mai” (Golden Bud Rice).

**Table 4 Product and Process Innovation at three companies**

| Firms                   | <u>NORITSU KOKI</u><br><u>Mr.Kanichi Nishimoto</u>   | <u>SHIMA SEIKI</u><br><u>Mr.Masahiro Shima</u>  | <u>TOYO SEISAKUSYO</u><br><u>SEIMAIKI</u><br><u>Mr.Keiji Saika</u>   |
|-------------------------|--|---|--|
| early stage of business | <u>Automatic print washer</u><br><br><u>The purpose of development:</u><br>Customer(Photographer) can operate flush watering of printing paper in electric power failure:<br><br>(there are few intentions of cost cut or differentiation) | <u>Full automatic glove knitting machine</u><br><br><u>The purpose of development:</u><br>The machine which can knit a glove automatically<br>(There are few intentions of a cost cut or differentiation)<br><br><u>Customer’s advantage:</u> | <u>Cereals separating machine (stone omission machine)</u><br><br><u>The purpose of development:</u><br>The machine which a stone does not mix after rice cleaning.<br><br>(There are few intentions of a cost cut or differentiation.<br><br><u>Customer’s advantage:</u> |

|   |   |  |   |
|---|---|--|---|
|   | <p><u>Customer's advantage:</u></p> <p>Maintaining the quality of flush watering</p> <p>--&gt; Stable operation -&gt; Reliability -&gt; Cost cut -&gt; differentiation</p> <p><u>Inventor's idea and knowledge:</u></p> <p>Sensibility, and recognition of need as a photographer</p>   | <p>Decreasing work load by automation</p> <p>-&gt; Increase efficiency -&gt; cost cut</p> <p><u>Inventor's idea and knowledge:</u></p> <p>-&gt;convenient by automating -&gt;</p> <p>the knowledge of the textile machine</p>  | <p>Prevention from mixing of a stone.</p> <p>-&gt; quality -&gt; reliability -&gt; differentiation</p> <p><u>Inventor's idea and knowledge:</u></p> <p>Consumers are not troubled by removal of a stone.</p> <p>Deep knowledge over the rice-polishing machine.</p>   |
| <p><b>developing stage of business,</b></p> | <p><b><u>high-speed automatic photograph processing system (QSS)</u></b></p> <p><u>The purpose of development:</u></p> <p>DPE for a short time near the user:</p> <p><u>Customer's advantage: :</u></p> <p>DPE is possible at a local photo shop, instead of a concentration processing laboratory,</p> <p>Shortening of customer's waiting time -&gt; differentiation of photo shop</p> <p><u>Inventor's idea and knowledge:</u></p> | <p><b><u>Non-sewing type computer flat knitting machine</u></b></p> <p><u>The purpose of development:</u></p> <p>Improvement by knitting clothes automatically:</p> <p><u>Customer's advantage:</u></p> <p>Improvement of working load</p> <p>-&gt; efficiency by automation</p> <p>-&gt; possibility of small-lot production</p> <p><u>Inventor's idea and knowledge:</u></p> | <p><b><u>BG rice-cleaning process</u></b></p> <p><u>The purpose of development:</u></p> <p>The rice-cleaning method customer who does not wash rice but loses drainage from the household:</p> <p><u>Customer's advantage:</u></p> <p>Improvement in environmental awareness, an idea and knowledge of the nutritional-balance secured.</p> <p>Secure rice of nutrition and health -&gt; customer-satisfaction</p> <p><u>Inventor's idea and knowledge:</u></p> |

|   |  |  |
|---|--|--|
| <p>DPE is possible at a local photo shop,<br/>(the Innovator knows a lot by operating photo studio in town)</p>   | <p>Convenient by automating<br/>An abundant machine and computer technology<br/>Knowledge over the structure of the textile machine</p>                  | <p><u>knowledge:</u><br/>Takes only the surface of rice bran by contact of brown rice.<br/>Deep knowledge over the rice.</p>   |
| <p><u>Obtaining Competitive</u><br/>DPE market was overwhelmed.<br/>(PS: Since DPE using a film disappears by the spread of digital cameras, under the present circumstances, strategic change is necessary.)</p> | <p><u>Obtaining Competitive</u><br/><u>advantage:</u><br/>Improvement of technical development.<br/>Entry to the apparel business can be considered.</p> | <p><u>Obtaining Competitive</u><br/><u>advantage:</u><br/>In spite of a rice-polishing machine maker, a rice-cleaning machine is not sold but it enters into rice-cleaning business.</p> |

## 6. Discussion and tentative Conclusions

As summarized in Table 4, we analyzed three companies and their founders. From the local company, or is considered that especially an innovation and knowledge management were one of the impelling forces by this report out of the company which is becoming / of a production machine production company -- a kind -- it argued about the rare founder's originality and creativity and entrepreneurship.

Specifically, it was aimed at Noritsu Koki (Mr. Kanichi Nishimoto) of photograph processing quick service system apparatus, Shima Seiki (Mr. Masahiro) of manufacturing and selling of a knitting machine, and the Oriental rice-polishing machine factory (Mr. Keiji Saika) that entered into wash-free rice sale from rice-cleaning machine production sale out of the company which makes Wakayama a base.

After being the stage arranged from a viewpoint of what kind of thing the item in the argument on a competitive advantage was, and being unable to say that sufficient analysis is conducted but conducting detailed analysis in the result of a series of old researches, it is due to add consideration and to consider it as a conclusion.

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# V. EFFECTIVE PUBLIC POLICY FOR SUSTAINABLE ENTREPRENEURSHIP/CULTURE ETHNICITY & ENTREPRENEURSHIP

## **EFFECT OF INTERNATIONAL TRADE POLICIES, INFLATION AND EXCHANGE RATES ON EXPORT GROWTH – BANGLADESH EXPERIENCE**

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**Abstract:** *The fundamental strength of Bangladesh RMG industry lies on the availability of the low cost labor in comparison to other countries in the Indian subcontinent. The growth rate in Bangladesh RMG industry has been significantly high in the last three decades. This study is pursued with the objective of examining the effect of trade liberalization and monetary policies on the RMG industry of Bangladesh, with special attention given on the roles of India and China in the industry. The study employs Johansen-Juselius Cointegration test and Vector Error Correction Modeling (VECM). Using yearly data from January 1990 through September 2011, this study reveals a significant long-term relationship between RMG export of Bangladesh and the four tested explanatory variables (Merchandise Export of China and India, domestic inflation in Bangladesh and Bangladesh exchange rate). The statistical results from the Granger Causality test show a presence of dynamic relationship between the performance of RMG export of Bangladesh and the fluctuation in Bangladesh exchange rates. However, this dynamic relation is non-existent in relation to factors involving merchandise export from China and India as well as domestic inflation.*

**Keywords:** *Trade Liberalization, Ready-Made Garments (RMG), New Industrial Policy (NIP), Exchange Rate Regime, Quantitative Restrictions (QR), Structural Adjustment Program (SAP), Economic Reformation, Multi Fiber Agreement (MFA), Generalized System of Preferences (GSP),*

## **INTRODUCTION**

By the virtue of international trade and global economy, Bangladesh has transformed its economic structure from agriculture-based economy into industrialized economy, concentrating on export-oriented industries (Faruque, 2009). Massive overpopulation, widespread poverty, unstable political condition, immense bureaucratic corruption, inefficient state-owned enterprises, mismanaged port facilities, inefficient use of energy resources, insufficient power supplies are some of the major obstacles fueling the economic growth of Bangladesh. Despite these hurdles, the country has abundant cheap work force, simple technology support by the industry and delicate policy support by the government which began attracting foreign investors in the 1980s (Shawon, 2011)

Bangladesh is a model from East Asian miracles demonstrating its success in ready-made garment (RMG) industry. RMG industry of Bangladesh has really shown a phenomenal growth over the last three decades (Khundker, 2002). The first garment export unit took place in year 1978. Since the early 1990s, RMG entrepreneurs have successfully uplifted and transformed Bangladesh into a garment exporting economy from a very jute-centered export economy (Baysan, 1999). Today, RMG industry is one of the key drivers in registering growth to the economy of Bangladesh. Nevertheless it is also necessary to point out that Bangladesh RMG's success is the direct outcome of the two international contributing factors - Multi Fiber Agreement (MFA) quota provided by the USA and Generalized System of Preferences (GSP) scheme offered by the EU (Ahmed and Sattar, 2004).

The MFA was introduced in 1974 for a short duration up to 2004, to govern the textile & world trade by imposing quotas to adjust the import merchandise from developing countries to the developed world. MFA worked as a stepping stone in reducing trade barriers as well as helped taking progressive measurement on RMG liberalization. MFA agreement was successful for Bangladesh as the merchandise export of RMG has shown a phenomenal growth. Similarly GSP is another mechanism by European Union (EU) offering preferential market access to certain products from the developing countries. GSP is two stage conversion processes -Rule of Origin (ROO) and Process Criteria. ROO requires the product must originate in Bangladesh & to be exported directly from Bangladesh to an EU member country. And the Process Criteria requires the product must be produced in Bangladesh. However, Bangladesh has failed to fully utilize the GSP scheme until 1997 as the RMG of Bangladesh heavily depends on the imported fabrics from China and India. Now, EU has substantially relaxed the rule by allowing RMG to use imported yarn or fabric from ASEAN countries (Asia Invest-2001).

It is important to note that over the past 15 years, RMG export earnings have increased by more than 8 times with an exceptional growth rate of 16.5% per annum (Mamun, 2010). In addition to the fact, the 200% growth in the RMG market share helped to place the country from 36<sup>th</sup> to 16<sup>th</sup> rank among global apparel exporters (CPD, 2000). But the policy makers of Bangladesh have to take necessary strategies in order to survive in the global competitive apparel market. India for example has taken all the necessary steps by investing Rs.250 billion (around US \$ 6 billion) to make their RMG industry self-sufficient in its backward linkages (Robbani 2001). Although Bangladesh is successful on exporting RMG, but it has failed to develop basic textile spinning and

weaving sub-sectors. Garment makers have to outsource fabric and necessary components such as zippers, buttons etc. to meet the domestic industry's demand for export.

## **LITERATURE REVIEW**

Several standard trade theories have been appraised to examine the positive co-relationship between trade liberalization & economic growth. Smith (1776) advocates that increase in trade can be achieved through improving the division of labor which in turn will enhance the level of productivity. Smith also emphasizes that having an open and an extensive market will give rise to capitalism and economic growth. The study of Smith was advanced by David Ricardo (1817). Ricardo proposes that international trade should be based on relative efficiencies (producing at lower opportunity cost) involving the trading nations. For instance, two trading nations will gain from international trade if they have different relative costs for producing the same goods. The Heckscher-Ohlin Theory (1933) builds on Ricardo's Theory of Comparative Advantage and it suggests that the patterns of trade should be based on the factor endowments of the trading nations. Essentially, this theory points out that a country will export a product that uses its abundant and cheap factor inputs and import those products that require the country's scarce resources.

Heckscher-Ohlin Theory supports trade liberalization because such an approach will increase supply of cheaper raw materials and fixed capital goods. Increase in international trade activities will stimulate faster export expansion which in turn leads to a stronger GDP contribution. Many empirical studies have shown that trade liberalization has no negative impact on the manufacturing sectors like RMG industry. Baysan (1999) advocates that trade liberalization contributes towards positive productivity growth. Therefore, the importance of trade liberalisation in driving dynamic productivity gains and economic growth should not be overlooked (CIE, 2009).

Earlier empirical studies suggest that the relationship between trade liberalization and economic growth is rather strong. Kaaray and Dollar (2001) advocate that a third world country like Bangladesh is likely to benefit from international trade with respect to income growth and poverty reduction. Dollar (1992) discovers a positive co-relationship between a measure of per capita GDP growth and outward orientation after examining 95 developing countries. Wacziarg (1998) suggests, after investigating on 57 countries, that trade openness has a strong impact on economic growth. Likewise, Frankel and Romer (1996) conclude, after having cross-country regressions, that trade has a robust effect on income. Having this empirical evidence, it is safe to say that open trade allows a developing county to grow faster which in turn lead to an effective and efficient means for poverty alleviation (Ahmed and Sattar, 2004).

To understand the impact of trade liberalization on Bangladesh economic growth, Begum and Shamsuddin (1998) investigate a research on the short-term impact of export growth from 1961 to 1992 and they found a significant economic growth in Bangladesh through an increase in total factor of productivity of the economy. Razzak et al. (2003) examine the same issue on the long-term aspect using revised and updated data of 1980-2000 with the help of traditional neoclassical and endogenous growth models along with three trade liberalization measures - trade to GDP ratio, the ratio of consumers' goods import to GDP and the implicit nominal tariff rate. They find that no significant effects of trade liberalization on the export-growth. Khondokar and Raihan (2004) examine the impact of different policy reforms based on applied general equilibrium framework. Their study reveals negative consequences on the macro-economic activities as well as on the welfare and poverty alleviations. Similarly, Raihan (2007, 2008) also found no evidence of any

statistically significant positive output when he analyzed the effect of trade liberalization on economic growth.

It is also important to see how local economic condition affects the growth of Bangladesh export. Inflation has been identified as one of the key factors affecting the economic growth of Bangladesh. Inflation refers to the rise in prices of goods and services over a period of time. Inflation causes erosion in the purchasing power of money and it has a direct connection with unemployment, income level and output. Theoretically, in any economy, an increase in inflation rate may reduce the unemployment rate. But such was not the case for Bangladesh in FY 2010-11. In FY 2009-10, inflation rate has shown an increase from 8.68% to 8.80% with also an increase in unemployment rate from 4.9% to 5.2% (Bangladesh Economic Update, 2011).

Cost-push and demand-pull are two affluent factors that influence the inflationary spiral in Bangladesh economy. Cost-push (supply-shock) inflation indicates substantial increases in the cost of important goods or services where no suitable alternative is available. According to Dornbush and Fischer (1994), U.S economy experienced remarkable inflation during the period 1971-74, 1979-80 and 1990 due to oil-shock disturbances. Concurrent global inflation is also viewed as a reason of recent oil crisis. Over the recent couple of years, a series of inflationary incidents have taken place in Bangladesh. Researchers have identified through various empirical examinations that supply side phenomena may be the main reason of such adverse cost conditions. In addition, labor cost and cost of imports are expected to work as the substantial influential factor for cost-push inflation (Majumder, 2006).

Demand-pull inflation refers to a situation when aggregated demand in the economy outpaces the aggregate supply (Basher and Khan, 2007). As the economy moves, inflation follows suit coupled with increase in real gross domestic product and decrease in unemployment rate. Keynesian theory explains that the higher aggregate demand (AD) is the result of increase employment rate which in turn generate economic growth. Due to capacity constraints, this increase in output will eventually become so small that the price of the good will rise. Strong export demand, increase in remittances, expansionary financial policy and higher growth of money supply are factors contributing to in an increase in aggregate demand for goods and services in Bangladesh in recent year (Basher and Khan, 2007).

The exchange rate policy plays a very important role in every economy as this policy determines the overall trade-capital flow of a country in relation to the FDI, inflations, national reserves and remittances (Aziz, 2008). If the currency rate erraticism is higher, then there will be a negative profit from the export trade as importer would find it too expensive to buy foreign goods and vice versa. To mitigate foreign exchange risk, international traders would surely go for the currency hedge but it would be too expensive to deal with over short run. Moreover, inconsistent and unstable exchange rate would influence firm's investment decision in the long run. It is therefore important to understand the impact of currency fluctuation on the balance of trade of a nation.

The exchange-rate regime (system) is the way a country manages its currency in relation to other currencies and the foreign exchange market. And these characteristics are nothing but two polar policy regimes of a point. One is known as 'fixed rate' where the value of the domestic currency is immutably fixed or pegged in exchange of foreign currencies. For example- US \$ 1= Taka 80. The other one is known as "floating rate" in which the local currency is allowed to exercise flexible rate

of foreign exchanges (Islam, 2003). In the case of Bangladesh policy exchange decision, Bangladesh Bank is the central bank and apex regulatory body of Bangladesh's monetary system. However, Bangladesh Bank is not in a position to take independent decision before consulting the Ministry of Finance. In most cases, authorized commercial banks are also assigned to facilitate the implementation of the exchange rate policies (Islam, 2003).

After the independence of Bangladesh, Pakistani currency 'rupee' has been replaced with the Bangladeshi national currency called 'taka' in January 1972 and was fixed against British Pound Sterling £1= Tk18.9677 (Younus, 2005). It is worth mentioning that no single exchange rate is appropriate in view of different economic standpoints around the globe. In reality, neither a fixed exchange rate nor flexible exchange rate works perfectly (Younus, 2005). Therefore, the actual practice of either of these regimes is rare and it may change over time based on the financial development and the economic condition of a particular country (Mussa, et.al.,2000). In the case of Bangladesh, it is vital to examine how the prevailing exchange rate system helps contribute the prosperous growth of RMG industry.

Bangladesh propelled its trade liberalization program in the mid-eighties (1980s) through a radical economic reformation from a highly restricted and inward-oriented nature of trade regime to an open economy. Since then, Bangladesh has passed through three phases of liberalization policy. The first phase of reform covered the period between 1981/82 to 1985/86 with the introduction of New Industrial Policy (NIP). The NIP-82 object was to encourage private sector industrialization in the country (Islam, 2007). The second phase was initiated in 1986 with the Revised Industrial Policy (RIP) covering the period between 1986/87 to 1990/1991. The RIP-86 objective was mainly to remove a large part of quantitative restrictions (QR) on imports as well as introducing a system of concessions and special incentives for export-oriented activities. And the third phase of reforms was the most intensive among all introduced in 1991-92 with Structural Adjustment Program (SAP). The proactive policy of SAP-92 created an environment to export promotion and sustainable anti-export bias in the economy in Bangladesh (Rahman and Bhattacharya, 2000). Such sharp change in Bangladesh has made an undoubted departure from a highly restricted system focusing only on import substitute to a much dynamic, export-oriented system (Baysan, 1999).

Researchers and policy makers have invested themselves into many studies to find out the impact of exchange rate on international trade. However there is no consensus in the theoretical and or empirical literature about the subject matter. In one hand, the studies done by Cushman (1983, 1986, 1988); Akhtar and Hilton (1984); Kenen and Rodrick (1986); Thursby and Thursby (1987); De Grauwe (1988); Pere and Steinherr (1986); Koray and Lastrapes (1989); and Arize (1995) present that the volatility of exchange rate reduces the volume of international trade. On the other hand, the studies by Hooper and Kohlhagen (1978), Gotur (1985), Bailey, Tavlas and Ulan (1987), and Asseery and Peel (1991) found no significant relationship about the impact of exchange rate volatility on the volume of international trade.

To analyse systematic effects of exchange rate and uncertainty on the international trade, Hooper and Kohlhagen (1978) opened up the study of investigating bilateral and multilateral trade among developed countries during 1965-75 with the help of standard error nominal exchange rate fluctuations. And they failed to establish any significant impact of exchange rate risk on the volume of international trade exports. To further investigate the rationales, real exchange rate was introduced by Cushman (1983) and found negative relation among the exchange rate volatility and the volume of trade. Cushman (1986) also introduced the third country effect and indicated that the effect of exchange rate variability on bilateral trade flows not only depend upon the exchange rate

risk experienced by the country under consideration but also depend upon the correlation of the exchange rate fluctuations in other countries.

A study by Akhter and Hilton (1984) forecasted that the exchange rate volatility has a significant negative impact on the exports and imports between West Germany and US. Later Gotur (1985) rejected the research result of Akhter and Hilton (1984) as he did not observe any significant relationship between exchange rate volatility and the bilateral trade flows. With the help of a multivariate error-correction model, Chowdhury (1993) found that the exchange rate volatility has a significant negative impact on the volume of exports in the G-7 (France, Germany, Italy, Japan, United Kingdom, United States, and Canada) countries. The impact of exchange rate volatility on exports in four East Asian countries (Hong Kong, South Korea, Singapore, and Thailand) by Baak, Mahmood, and Vixathep (2002) has also shown a negative impact in both short and long term export volume. Moreover, to examine the empirical evidence between real effective exchange rate and the bilateral trade flow of OECD (Organizations for Economic Co-operation and Development) countries Rose (1991); Rose and Yellen (1989) depict exchange rate as insignificant determinant of trade flow.

The empirical researches done by Bahmani-Oskooee (1984, 1986); Coes (1981) and Rana (1983) in the context of developing countries support the statement that any significant variations in exchange rate policies will have an effect on the level of export growth. Rana (1983) also examined the import demand function of a number of Southeast Asian countries and derived at a conclusion that the increase in exchange rate has a significant negative impact on import volumes. Kabir (1988); Ahmed, Haque and Talukder (1993) investigated the export demand function of Bangladesh and found significant evidence on income elastic demand for exports. However, Ahmed, Haque and Talukder (1993) concluded their statement with the fact that export demand might not boost up with the strategy of cost efficiency by lowering its prices. In addition to the study, Bayes, Hossein and Rahman (1995) examined the demand and supply models of the Bangladeshi export based on the annual data and identified that Bangladesh's' export is highly sensitive towards the income growth of its trading partners. The outcome of their research depicted that a 10% rise in a foreign income would raise the demand for Bangladeshi exports by 23%. That means the more the income growth of the trading partners the better the growth of Bangladesh export.

A study on Indian trade balance by Singh (2002) showed a very significant influence of real exchange rate and domestic income of India while foreign income showed an insignificant impact on India trade balance. Onafowora (2003) examined the bilateral trade flows of three ASEAN countries, Malaysia, Indonesia and Thailand with United States and Japan. His research indicated a positive long- term relationship between real exchange rate and real trade balance in all the cases.

This study is pursued with the motivation to find out the effect of trade liberalization or open trade on Bangladesh RMG industry with special attention given towards the roles of India, China, national inflation and exchange rates regime. Trade liberalization removes quotas, reduces restrictions or lowers tariffs and welcomes free exchange between nations (CIE, 2009). This paper seeks empirical evidence by exploring theoretical links between trade liberalization and economic growth of Bangladesh RMG industry. Specifically, the study is narrowed towards a number of pertinent issues relating to the export of RMG within the framework of trade liberalization and local economic conditions. Subsequently, the following research questions are studied and analyzed:

- (a) Is wider trade openness likely to contribute towards higher economic growth through export?
- (b) How does merchandise export of China affect the export growth of Bangladesh RMG?
- (c) How does merchandise export of India affect the export growth of Bangladesh RMG?
- (d) Do inflation rate and exchange rate influence the export growth of Bangladesh RMG?

**DATA, MODEL & METHODOLOGY**

The Vector Autoregressive method (VAR) is the estimating technique used in this study and it encompasses the Johansen-Juselius Multivariate cointegration, Vector Error Correction Model (VECM), Impulse Response Function (IRF) and Variance Decomposition (VDC). To investigate the theoretical relationship between RMG export of Bangladesh and the **four** explanatory variables, the following model is developed:

$$RMG_B = f (ME_I, ME_C, Inflation_B, Taka/USD)$$

where:  $RMG_B$  = Ready Made Garment Export of Bangladesh  
 $ME_I$  = Merchandise Export of India  
 $ME_C$  = Merchandise Export of China  
 $Inflation_B$  = Inflation Rate in Bangladesh  
 $Taka/USD$  = Foreign Exchange Rate

The mathematical expression of the model is as follows:

$$RMG_B = \beta_0 + \beta_1 ME_I + \beta_2 ME_C + \beta_3 Inflation_B + \beta_4 Taka/USD + \mu_t \dots\dots\dots 1)$$

where:  $RMG_B$  = Ready Made Garment Export of Bangladesh  
 $ME_I$  = Merchandise Export of India  
 $ME_C$  = Merchandise Export of China  
 $Inflation_B$  = Inflation in Bangladesh  
 $Taka/USD$  = Foreign Exchange Rate  
 $\mu_t$  = Error Terms

The development of this model is based on the framework of modern trade theories with special attention given to Heckscher-Ohlin Theory, (1933). Specifically, the research framework of this study is demonstrated in Figure 1 below.

This study takes 22 years observation spanning from January 1990 till December 2011. In evaluating the statistical relationship between  $RMG_B$  and the **four** variables, cointegration procedures used by Engle-Granger (1987) and Johansen-Juselius (1990) are deployed. Cointegration test is a statistical concept introduced by Granger (1981), Granger and Weiss (1983) and Engle and Granger (1987) which has received wide attention and is beginning to be applied to test the validity of various theories and models. Cointegration is an econometric technique for testing the correlation between non-stationary time series variables. In this concept, two variables are cointegrated when a linear combination of the two is stationary, even though each variable is non-stationary on its own or at level. Usually when X and Y variables are non-stationary, it is expected that a linear combination of two variables would also be non-stationary. However, this notion has been proven wrong by Engle and Granger (1987). According to Granger (1981) and Engle-Granger (1987), components in vector  $X_t$  is cointegrated at  $d, b$  degree if:

- i) All components of  $X_t$  is  $I(d)$
- ii) There is a nonzero vector  $\beta = (\beta_1, \beta_2, \dots, \beta_n)$  so that the linear combination of  $\beta X_t = \beta_1 X_{1t} + \beta_2 X_{2t} + \dots + \beta_n X_{nt}$  will be cointegrated at  $d, b$  degree where  $b > 0$ . The vector  $\beta$  is the cointegration vector. Note that  $d$  is the number of differencing, while  $b$  represents the number of cointegrating vector.

In order to avoid the problem of non-stationarity, it is necessary to make use of first (or higher) differentiated data. Such differencing, however, may result in a loss of precious data points on long-run characteristics of the time-series data. However, Engle and Granger (1987) show that, if there is an equilibrium relationship between such variables, then the disequilibrium error should fluctuate about zero i.e. error terms should be stationary. The unit root test is important in determining the stationarity of time series data. Whether the variables tested has the tendency to return to its long term trend after a shock (i.e. it is stationary) or exhibits a random walk pattern (i.e. it has a unit root) is an important question to be answered prior to any further data analysis as the latter would suggest spurious regression relationship. This paper uses the Augmented Dickey Fuller test (ADF):

$$\Delta X_t = \lambda_0 + \lambda_1 T + \lambda_2 X_{t-1} + \sum \lambda_i \Delta X_{t-i} + \varepsilon_t \dots\dots\dots 2)$$

where  $i = 1, 2, 3 \dots k$

The hypotheses being tested are:

$H_0: \lambda_2 = 0$  (the data is not stationary, it contains unit root)

$H_1: \lambda_2 < 0$  (data is stationary, it does not contain unit root)

Once this requirement is met, X and Y variables are said to be cointegrated and a method of Vector Error Correction Model (VECM) can be pursued. VECM is a restricted Vector Autoregressive method (VAR) which involves Johansen-Juselius multivariate cointegration. VECM restricts the long run behaviour of endogeneous variables to converge to their cointegrating relationship while allowing for short run adjustments. The VECM would allow us to separate short-term from long-term relationships. The VAR model is expressed as below:

$$X_t = A_0 + \sum_{k=1}^p A_k X_{t-k} + e_t \dots\dots\dots 3)$$

where:

$X_t$  is in the form of  $n \times 1$  vector of variables

$A_0$  is an  $n \times 1$  vector of constant terms

$A_k$  is an  $n \times n$  matrix of coefficients

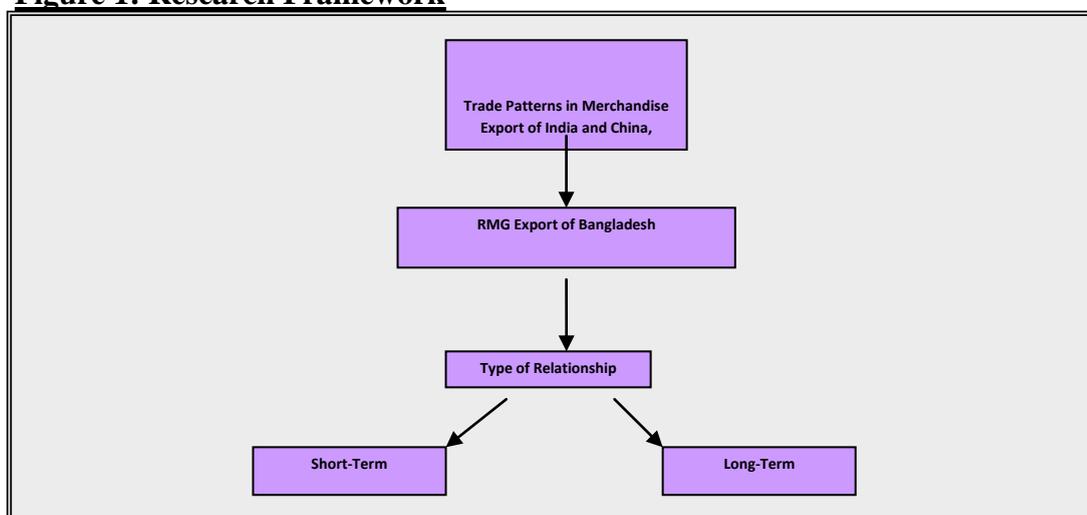
$e_t$  is an  $n \times 1$  vector of error terms

The results from the cointegration test will expose long term relationship among the variables involved. The specifications of their short run dynamics will be represented by the VAR model. If the variables are non-stationary and are not cointegrated, the VAR model above (in first differences) will be used. If, on the other hand, the variables are cointegrated, the VECM model (a level VAR) is used (Engel and Granger 1987).

The study also applies Ordinary Least Square Method (OLS), which is subjected to Classical Normal Linear Regression assumptions. Those critical assumptions are: a) time-series data must

be stationary, b) residual or error term must be homoscedastic, c) residuals are independent of one another or there is no autocorrelation between residuals, d) residual distribution is normal, and e) independent variables are not related to one another or there is an absence of multicollinearity. In order to ensure all statistical findings are valid, the assumptions must be observed. For this reason, diagnostic tests consisting of Augmented-Dickey Fuller unit root test, Moments of Specification Test/White test, Durbin-Watson test, Anderson-Darling test and Variance Inflation Technique are carried out. In investigating the relationship between  $RMG_B$  and the three tested variables, the study expects unidirectional causality from the three variables to  $RMG_B$ .

**Figure 1: Research Framework**



To begin with, the study will perform unit root tests on all-time series variables, followed by Johansen-Juselius cointegration test and Granger causality test within Vector Error Correction Modeling. To examine the dynamic interaction between the variables, the study employs IRF and VDC.

**EMPIRICAL FINDINGS**

This study employs Augmented Dickey-Fuller stationary test on the four time series data. The p-value is used to determine the significance level of the hypothesis testing. The time series under consideration should be integrated in the same order before the study can proceed to Johansen-Juselius Cointegration test. Table 1 and Table 2 present the test result from the ADF and PP tests on each variable at level and first difference respectively. The test results show the acceptance of null hypothesis indicating that all time series variables are non stationary at level. On the other hand, all null hypothesis on the first differenced data series are rejected indicating all data series under consideration are stationary at first difference. From the test results above, it is now obvious that all investigated variables are stationary at the same order or I(1).

**Table 1:**

|  |
|--|
| Group unit root test: Summary                                  |
| Series: RMG_BD, ME_INDIA, ME_CHINA, INFLATION_BD_,ER_TAKA_USD_ |
| Date: 10/13/11 Time: 13:50                                     |

| Sample: 1990 to 2011  |                   |                |              |
|---|-------------------|----------------|--------------|
| Exogenous variables: Individual effects   |                   |                |              |
| Automatic selection of maximum lags   |                   |                |              |
| Automatic lag length selection based on SIC 0 to 2  |                   |                |              |
| Newey-West automatic bandwidth selection and Bartlett kernel  |                   |                |              |
| <b>Method</b>   | <b>Statistics</b> | <b>Prob.**</b> | <b>Cross</b> |
| <b>sections Obs</b>   |                   |                |              |
| Null: Unit root (assumes common unit root process)  |                   |                |              |
| Levin, Lin & Chu t*<br>99   | 5.60681           | 1.0000         | 5            |
| Null: Unit root (assumes individual unit root process)  |                   |                |              |
| Im, Pesaran and Shin W-stat<br>99   | 7.19377           | 1.0000         | 5            |
| ADF- Fisher Chi-square<br>99  | 3.256433          | 0.9747         | 5            |
| PP-Fisher Chi-square<br>105   | 5.57258           | 0.8498         | 5            |
| **Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality. |                   |                |              |

**Table 2:**

| Group unit root test: Summary   |                   |                |              |
|---|-------------------|----------------|--------------|
| Series: RMG_BD, ME_INDIA, ME_CHINA, INFLATION_BD_,ER_TAKA_USD_  |                   |                |              |
| Date: 10/13/11 Time: 13:50  |                   |                |              |
| Sample: 1990 to 2011  |                   |                |              |
| Exogenous variables: Individual effects   |                   |                |              |
| Automatic selection of maximum lags   |                   |                |              |
| Automatic lag length selection based on SIC 0 to 3  |                   |                |              |
| Newey-West automatic bandwidth selection and Bartlett kernel  |                   |                |              |
| <b>Method</b>   | <b>Statistics</b> | <b>Prob.**</b> | <b>Cross</b> |
| <b>sections Obs</b>   |                   |                |              |
| Null: Unit root (assumes common unit root process)  |                   |                |              |
| Levin, Lin & Chu t*<br>94   | -3.44505          | 0.0003         | 5            |
| Null: Unit root (assumes individual unit root process)  |                   |                |              |
| Im, Pesaran and Shin W-stat<br>94   | -3.34343          | 0.0004         | 5            |
| ADF- Fisher Chi-square<br>94  | 35.0399           | 0.0001         | 5            |
| PP-Fisher Chi-square<br>100   | 46.9515           | 0.0000         | 5            |
| **Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality. |                   |                |              |

To determine optimum lag-length, the study uses AIC and SC statistics. The test results in Table 3 show that the best model is obtained with the utilization of lag 1. To test the significance of the *ect*

(or error correction terms) in each individual model above, the p-value is reported to indicate the level of significance.

**Table 3:**

| VAR Lag Order Selection Criteria                                  |           |           |           |           |                            |           |
|---|-----------|-----------|-----------|-----------|----------------------------|-----------|
| Endogenous Variables:   |           | RMG_BD,   | ME_INDIA, | ME_CHINA, | INFLATION_BD_,ER_TAKA_USD_ |           |
| Exogenous variables: C  |           |           |           |           |                            |           |
| Date: 10/13/11 Time 13:57   |           |           |           |           |                            |           |
| Sample: 1990 to 2011  |           |           |           |           |                            |           |
| Included observations:21  |           |           |           |           |                            |           |
| Lag   | LogL      | LR        | FPE       | AIC       | SC                         | HQ        |
| 0   | -797.2614 | NA        | 1.05e+27  | 76.40584  | 76.65454                   | 76.65454  |
| 1   | -690.6312 | 152.3288* | 4.78e+23* | 68.63154* | 70.12372*                  | 70.12372* |
| *indicates lag order selected by the criterion                    |           |           |           |           |                            |           |
| LR: sequential modified LR test statistic (each test at 5% level) |           |           |           |           |                            |           |
| FPE: Final prediction error                                       |           |           |           |           |                            |           |
| AIC: Akaike information criterion                                 |           |           |           |           |                            |           |
| SC: Schwarz information criterion                                 |           |           |           |           |                            |           |
| HQ: Hannan-Quinn information criterion                            |           |           |           |           |                            |           |

Johansen-Juselius Cointegration Test (1990) is used to determine the number of cointegrating vectors. Johansen (1988) suggests two statistic tests to determine the cointegration rank, namely lamda trace and lamda max. The results of this cointegration analysis are reported in Table 4 and Table 5. Lamda trace and lamda max statistics indicate the existence of cointegration between variables. Null hypothesis of no cointegrating vector ( $r=0$ ) is rejected at 5% significance level on all lag tested (1,2 and 3). Since lamda trace and lamda max are greater than their respective critical values, we conclude that there is at least four cointegrating vectors exist for the time series variables in the system. This cointegrating vector or  $r$  is the variable that pulls all the five variables in the equation to be cointegrated in the long-run. In other words,  $r$  indicates the number of cointegrating relationships (Masih et al., 1996).

**Table 4:**

| Date: 10/13/11 Time 13:59   |            |                  |                          |   |
|---|------------|------------------|--------------------------|---|
| Sample (adjusted): 1992 to 2011   |            |                  |                          |   |
| Included observations:20 after adjustments  |            |                  |                          |   |
| Trend assumption: Leaner deterministic trend  |            |                  |                          |   |
| Series: RMG_BD, ME_INDIA, ME_CHINA, INFLATION_BD_,ER_TAKA_USD_                        |            |                  |                          |   |
| Lags interval (in first differences) 1 to 1   |            |                  |                          |   |
| Hypothesized Percent No. of CE(s)   | Eigenvalue | Trace Statistics | 5 Percent Critical Value | 1 |
| 11th International Entrepreneurship Forum Kuala Lumpur, Malaysia, 4-6 September, 2012 |            |                  |                          |   |

| <b>Critical Value</b>  |          |          |       |       |
|--|----------|----------|-------|-------|
| None**   | 0.973872 | 165.4890 | 68.52 | 76.07 |
| At most 1**  | 0.927631 | 92.59416 | 47.21 | 54.46 |
| At most 2**  | 0.667195 | 40.07459 | 29.68 | 35.65 |
| At most 3*   | 0.527194 | 18.07065 | 15.41 | 20.04 |
| At most 4  | 0.143125 | 3.089259 | 3.76  | 6.65  |
| <b>Trace test indicates 4 co-integrating equation(s) at the 5% level</b> |          |          |       |       |
| Trace test indicates 3 co-integrating equation(s) at the 5% level        |          |          |       |       |
| *(**) denotes rejection of the hypothesis at the 5% (1%) level           |          |          |       |       |

**Table 5:**

| Trend assumption: Leaner deterministic trend                                      |                   |                       |                  |                       |
|---|-------------------|-----------------------|------------------|-----------------------|
| Series: RMG_BD, ME_INDIA, ME_CHINA, INFLATION_BD_,ER_TAKA_USD_                    |                   |                       |                  |                       |
| Lags interval (in first differences) 1 to 1                                       |                   |                       |                  |                       |
| <b>Hypothesized</b>   |                   | <b>Max-eigenvalue</b> | <b>5 Percent</b> | <b>1</b>              |
| <b>Percent</b>  |                   |                       |                  |                       |
| <b>No. of CE(s)</b>   | <b>Eigenvalue</b> | <b>Statistics</b>     |                  | <b>Critical Value</b> |
| <b>Critical Value</b>   |                   |                       |                  |                       |
| None**  | 0.973872          | 72.89488              | 33.46            | 38.77                 |
| At most 1**   | 0.927631          | 52.51957              | 27.07            | 32.24                 |
| At most 2*  | 0.667195          | 22.00394              | 20.97            | 25.52                 |
| At most 3   | 0.527194          | 14.98139              | 14.07            | 18.63                 |
| At most 4   | 0.143125          | 3.089259              | 3.76             | 6.65                  |
| <b>Max-eigenvalue test indicates 4 co-integrating equation(s) at the 5% level</b> |                   |                       |                  |                       |
| Max-eigenvalue test indicates 2 co-integrating equation(s) at the 1% level        |                   |                       |                  |                       |
| *(**) denotes rejection of the hypothesis at the 5% (1%) level                    |                   |                       |                  |                       |

Table 6 below shows the results of all VECM estimates. However, our study focuses only on RMG<sub>B</sub> model in which the *ect* in VECM (1) is significant at 5% level. Recall that *ect* has to be negative in value or its value must lie within the range of 0.00 and -1.00 ( $0.00 > ect > -1.00$ ). Having the value of *ect* from VECM (1) equals **-0.1416**, we can conclude that there is a significant long-run relationship between RMG<sub>B</sub> and the other four variables, namely ME<sub>I</sub>, ME<sub>C</sub>, inflation and Bangladesh exchange rate. Furthermore, there is about **14.16%** speed of adjustment towards equilibrium made by RMG<sub>B</sub> in the system. This is considered a moderate adjustment process and could be attributed to the current scenario in the global commodity markets. Higher speed of adjustment is preferred because a statistically reliable endogenous variable should have higher speed of adjustment. This finding is in line with our expectation that RMG<sub>B</sub> is the endogenous variable in relation to ME<sub>I</sub>, ME<sub>C</sub>, inflation and exchange rates. Interestingly, the test result from Granger Causality within sample in VECM (1) indicates a presence of dynamic relation between RMG<sub>B</sub> and exchange rates, significant at 10% level. This finding implies that Bangladesh exchange rate 'Granger-causes' RMG<sub>B</sub> and, therefore, the exchange rate of Taka per USD is indeed a leading economic indicator in the system.

**Table 6: Standard errors in ( ) & t-statistics in [ ]**

|                                   |
|-----------------------------------|
| Vector Error Correction Estimates |
| Date: 10/13/11 Time 14:00         |
| Sample (adjusted): 1992 to 2011   |

| Included observations:20 after adjustments   |                   |                    |                     |            |            |
|--|-------------------|--------------------|---------------------|------------|------------|
| Standard errors in ( ) & t-statistics in [ ] |                   |                    |                     |            |            |
| Error Correction:<br>D(ER_TAKA)              | D(RMG_BD)         | D(ME_INDIA)        | D(ME_CHINA)         | D(INFLA)   |            |
| CointEq1                                     | <b>-0.141649</b>  | -1.747798          | -20.95696           | 1.18E-05   | 2.97E-06   |
|  | (0.02936)         | (0.51206)          | (4.02347)           | (0.00016)  | (0.00012)  |
|  | [-4.82486]        | [-3.41324]         | [-5.20868]          | [0.07365]  | [0.02416]  |
| D(RMG_BD(-1))                                | -1.039956         | 3.841826           | -73.99607           | 0.000486   | -0.000974  |
|  | (0.31239)         | (5.44867)          | (42.8121)           | (0.00170)  | (0.00131)  |
|  | [-3.32905]        | [0.70509]          | [-1.72839]          | [0.28598]  | [-0.74550] |
| D(ME_INDIA(-1))                              | -0.030273         | 3.738569           | -28.05478           | -2.31E-05  | 2.51E-05   |
|  | (0.02697)         | (0.47042)          | (3.69623)           | (0.00015)  | (0.00011)  |
|  | [-1,12244]        | [-7.94735]         | <b>[-7.59011**]</b> | [-0.15736] | [0.22237]  |
| D(ME_CHINA(-1))                              | 0.005289          | 0.418571           | 2.986816            | 7.30E-06   | 4.42E-07   |
|  | (0.00345)         | (0.06024)          | (0.47331)           | (1.9E-05)  | (1.4E-05)  |
|  | [1.53130]         | <b>[6.94862**]</b> | [6.31047]           | [0.38850]  | [0.03061]  |
| D(INFLATION_BD_(-1))                         | 90.74487          | 2683.506           | 26255.10            | 0.032859   | -0.018358  |
|  | (59.4183)         | ( 1036.37)         | (8143.14)           | (0.32344)  | (0.24857)  |
|  | [1.52722]         | <b>[2.58933**]</b> | <b>[3.22420**]</b>  | [0.10159]  | [-0.07385] |
| D(ER_TAKA_USD_(-1))                          | 163.1623          | 1458.336           | 33203.02            | -0.266899  | 0.240437   |
|  | (87.0733)         | (1518.73)          | (11933.2)           | (0.47398)  | (0.36427)  |
|  | <b>[1.87385*]</b> | [0.96023]          | <b>[2.78241**]</b>  |            | [-0.56310] |
|  | [0.66006]         |                    |                     |            |            |
| C  | 1080.711          | 11057.74           | 129456.3            | -0.232107  | 1.811827   |
|  | (243.759)         | (4251.64)          | (33406.7)           | (1.32689)  | (1.01975)  |
|  | [4.43352]         | [2.60082]          | [3.87516]           | [-0.17493] | [1.77673]  |
| *significant at 10% level                    |                   |                    |                     |            |            |
| **significant at 5% level                    |                   |                    |                     |            |            |
| R-squared                                    | 0.883988          | 0.858896           | 0.843775            | 0.090627   | 0.195877   |
| Adj. R-squared                               | <b>0.830444</b>   | <b>0.793771</b>    | <b>0.771672</b>     | -0.329083  | -0.175257  |
| Sum sq. resids                               | 2710716           | 8.25E+08           | 5.09E+10            | 80.32182   | 47.44063   |
| S.E. equation                                | 456.6362          | 7964.636           | 62580.93            | 2.485679   | 1.910309   |
| F-statistic                                  | 16.50957          | 13.18841           | 11.70224            | 0.215928   | 0.527779   |
| Log likelihood                               | -146.5487         | -203.7263          | -244.9553           | -42.28186  | -37.01624  |
| Akaike AIC                                   | 15.35487          | 21.07263           | 25.19553            | 4.928186   | 4.401624   |
| Schwarz SC                                   | 15.70337          | 21.42113           | 25.54403            | 5.276692   | 4.750130   |

|                              |           |          |          |           |          |
|------------------------------|-----------|----------|----------|-----------|----------|
| Mean dependent               | 831.6590  | 10216.08 | 87531.49 | -0.074524 | 1.925000 |
| S.D.dependent                | 1108.955  | 17538.43 | 130967.0 | 2.156101  | 1.762126 |
| Determinant resid covariance | 2.37E+22  |          |          |           |          |
| Determinant resid covariance | 2.75E+21  |          |          |           |          |
| Log likelihood               | -635.5395 |          |          |           |          |
| Akaike information criterion | 67.55395  |          |          |           |          |
| Schwarz criterion            | 69.54542  |          |          |           |          |

These are the normalized long-run (variables at level) coefficients from the long-run regression by the system (via Johansen-Juselius Cointegration using lamda max). From table 7, the respective  $ME_I$ ,  $ME_C$ , inflation and exchange rate coefficients of **-0.0844**, **-0.0265** and **1421.87** and **555.35** indicate the type of relationship they have established with  $RMG_B$ . Specifically, the statistical results show positive relationships between  $RMG_B$  and respective  $ME_I$  and  $ME_C$  in the long-run (take the opposite sign). Any increase in the value of merchandise export from India and China will directly influence the value of  $RMG$  export of Bangladesh. On the contrary, an increase in the inflation rate coupled with depreciating Taka will leave negative long-run effect on the export value of  $RMG$  of Bangladesh. It is also important to note that whatever types of relationships established here are consistent with the results shown by impulse response functions as indicated by the graphs below.

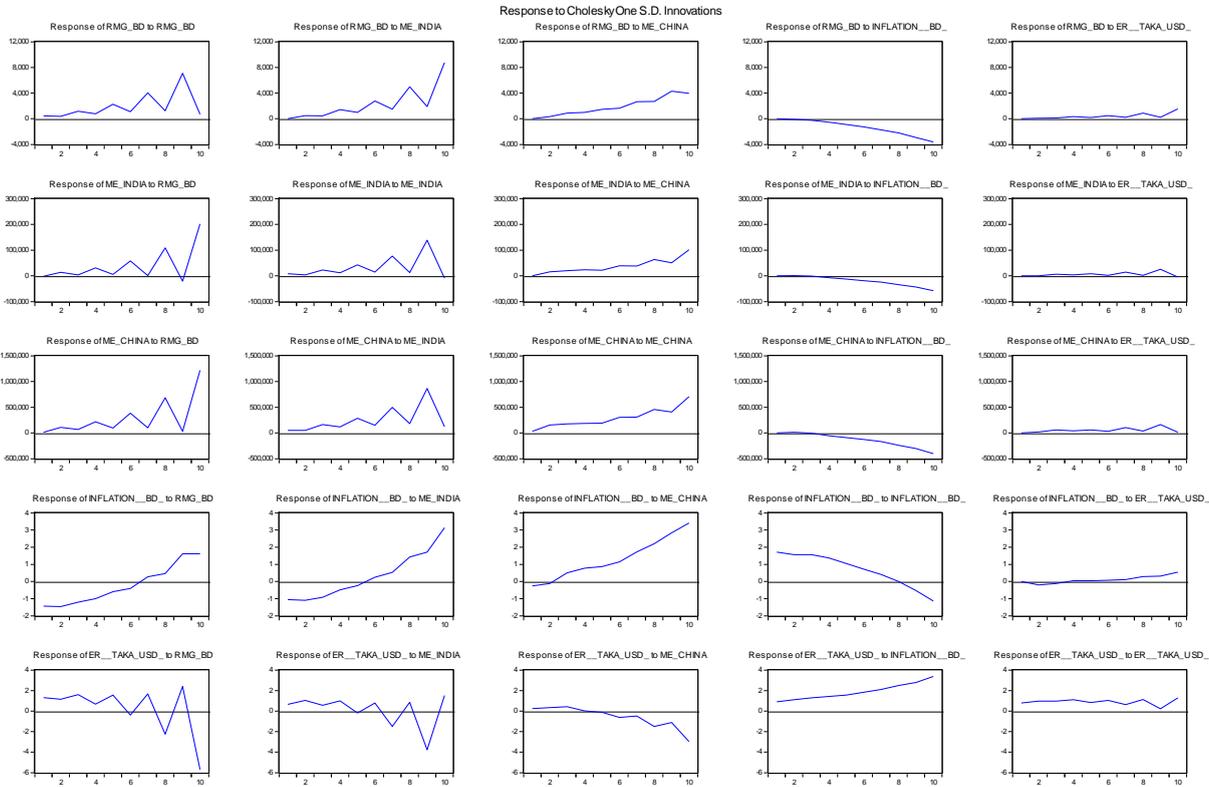
**Table 7:**

Co-integrating Equation(s):      Log likelihood      -635.5395

| Normalized co-integrating coefficients (standard error in parentheses) |                  |  |                  |                 |
|--|------------------|--|------------------|-----------------|
| RMG_BD   | ME_INDIA         |  | ME_CHINA         | INFLATION       |
| 1.000000   | <b>-0.084468</b> |  | <b>-0.026540</b> | <b>1421.875</b> |
| <b>555.3559</b>  |                  |  |                  |                 |
|  | (0.06636)        |  | (0.00963)        | (142.674)       |
| (65.1143)  |                  |  |                  |                 |
| Adjustment coefficients (standard error in parentheses)                |                  |  |                  |                 |
| D(RMG_BD)  | -0.141649        |  |                  |                 |
|  | (0.02936)        |  |                  |                 |
| D(ME_INDIA)  | -1.747798        |  |                  |                 |
|  | (0.51206)        |  |                  |                 |
| D(ME_CHINA)  | -20.95696        |  |                  |                 |
|  | (4.02347)        |  |                  |                 |
| D(INFLATION_)  | -1.18E-05        |  |                  |                 |
|  | (0.00016)        |  |                  |                 |
| D(ER_TAKA  | 2.97E-06         |  |                  |                 |
|  | (0.00012)        |  |                  |                 |

Dynamic simulations are used to calculate impulse response function (IRF) and to visualize variance decomposition (VDC) in order substantiate the results obtained from VECM. From one standard deviation shock in  $ME_I$  and  $ME_C$  as shown below, the response of  $RMG_B$  is seen significant as it moves up drastically. Similar finding is observed in investigating the impact of inflation on  $RMG_B$ . However, the one standard deviation impact forces  $RMG_B$  to move in the

opposite direction. Overall, the influence of  $ME_I$ ,  $ME_C$  and inflation on  $RMG_B$  performance appears significant and consistent over short-haul.



Another out-of-sample forecasting is pursued via variance decomposition (VDC) and the results are presented in Table 8 below. The ten-period horizon is used to demonstrate a sense of the dynamics in the system. The Granger-causal chain implied by the VDC analysis tends to suggest that  $RMG_B$  is relatively the leading variable, being the most exogenous of all, followed by  $ME_I$  and  $ME_C$ . Decomposition of variance in  $RMG_D$ , besides being explained by its own, can also be explained by  $ME_I$  (41%) and  $ME_C$  (19.20%). Interestingly, the same can be said for  $ME_I$ , in which 49.6% of its variation is explained by  $RMG_B$ , while another 18.5% is explained by  $ME_C$ .

**Table 8:** Variance Decomposition of involving:

a)  $RMG_B$

| Perio<br>d | S.E.     | RMG_BD   | ME_INDIA | ME_CHIN<br>A | INFLATIO<br>N_BD_ | ER__TAKA<br>_USD_ |
|------------|----------|----------|----------|--------------|-------------------|-------------------|
| 1          | 456.6362 | 100.0000 | 0.000000 | 0.000000     | 0.000000          | 0.000000          |
| 2          | 846.2553 | 47.02509 | 34.42749 | 16.12517     | 1.798727          | 0.623515          |
| 3          | 1780.959 | 54.58929 | 13.71049 | 28.69235     | 2.472614          | 0.535261          |
| 4          | 2686.982 | 32.00082 | 34.82368 | 26.45152     | 5.057973          | 1.666001          |
| 5          | 4028.209 | 45.54467 | 21.38437 | 24.74405     | 7.399901          | 0.927009          |

|    |          |          |          |          |          |          |
|----|----------|----------|----------|----------|----------|----------|
| 6  | 5434.613 | 29.09649 | 37.36856 | 22.79272 | 9.438462 | 1.303769 |
| 7  | 7620.620 | 42.73845 | 22.89157 | 23.74868 | 9.872584 | 0.748712 |
| 8  | 9874.063 | 27.06226 | 39.18134 | 21.59313 | 10.89988 | 1.263394 |
| 9  | 13362.18 | 42.97675 | 23.37627 | 22.12817 | 10.80116 | 0.717657 |
| 10 | 16935.25 | 26.92345 | 41.31417 | 19.20997 | 11.28477 | 1.267645 |

b)

MEi

| Perio<br>d | S.E.     | RMG_BD   | ME_INDIA | ME_CHIN<br>A | INFLATIO<br>N_BD_ | ER__TAKA<br>_USD_ |
|------------|----------|----------|----------|--------------|-------------------|-------------------|
| 1          | 7964.636 | 5.175635 | 94.82437 | 0.000000     | 0.000000          | 0.000000          |
| 2          | 21820.92 | 36.98332 | 15.97572 | 46.88102     | 0.128703          | 0.031240          |
| 3          | 37871.27 | 13.29764 | 41.34844 | 42.40217     | 0.125584          | 2.826165          |
| 4          | 55953.97 | 35.74815 | 23.69577 | 36.97498     | 1.841768          | 1.739336          |
| 5          | 75438.40 | 20.11851 | 45.02145 | 28.75437     | 3.979897          | 2.125772          |
| 6          | 105626.8 | 40.47254 | 24.79030 | 28.46752     | 5.144885          | 1.124759          |
| 7          | 139153.1 | 23.32145 | 45.15782 | 23.71616     | 6.007684          | 1.796885          |
| 8          | 191054.2 | 44.60920 | 24.37410 | 23.58971     | 6.467781          | 0.959214          |
| 9          | 247306.0 | 27.33153 | 45.90202 | 18.20394     | 6.924312          | 1.638205          |
| 10         | 339863.5 | 49.66337 | 24.37518 | 18.47964     | 6.595143          | 0.886675          |

c)

MEc

| Perio<br>d | S.E.     | RMG_BD   | ME_INDIA | ME_CHIN<br>A | INFLATIO<br>N_BD_ | ER__TAKA<br>_USD_ |
|------------|----------|----------|----------|--------------|-------------------|-------------------|
| 1          | 62580.93 | 6.027261 | 67.86272 | 26.11002     | 0.000000          | 0.000000          |
| 2          | 203082.8 | 28.46952 | 12.10725 | 58.27862     | 0.439435          | 0.705183          |
| 3          | 326269.4 | 15.54523 | 29.72860 | 51.23841     | 0.200070          | 3.287688          |
| 4          | 453049.7 | 30.90458 | 22.03675 | 43.05738     | 1.557298          | 2.443987          |
| 5          | 584990.3 | 21.12254 | 36.67855 | 36.30910     | 3.381610          | 2.508208          |
| 6          | 788748.4 | 35.37136 | 23.82504 | 34.78727     | 4.460173          | 1.556157          |
| 7          | 1008810. | 22.63085 | 39.08375 | 30.70402     | 5.546505          | 2.034873          |
| 8          | 1336028. | 39.02951 | 24.13037 | 29.18483     | 6.418774          | 1.236519          |
| 9          | 1678949. | 24.74850 | 41.71349 | 24.42804     | 7.364966          | 1.745007          |
| 10         | 2231048. | 43.85169 | 23.93143 | 23.78729     | 7.438504          | 0.991085          |

d)

Inf.

| Perio<br>d | S.E.     | RMG_BD   | ME_INDIA | ME_CHIN<br>A | INFLATIO<br>N_BD_ | ER__TAKA<br>_USD_ |
|------------|----------|----------|----------|--------------|-------------------|-------------------|
| 1          | 2.485679 | 33.28434 | 17.85022 | 1.107272     | 47.75817          | 0.000000          |
| 2          | 3.471534 | 34.90052 | 19.20735 | 0.681967     | 44.85837          | 0.351793          |
| 3          | 4.132581 | 33.19458 | 18.56944 | 1.964367     | 45.94242          | 0.329193          |
| 4          | 4.564821 | 32.07456 | 16.38507 | 4.477985     | 46.78495          | 0.277437          |

|    |          |          |          |          |          |          |
|----|----------|----------|----------|----------|----------|----------|
| 5  | 4.804545 | 30.47692 | 15.03407 | 7.304730 | 46.92594 | 0.258333 |
| 6  | 5.016058 | 28.61182 | 14.04080 | 11.95163 | 45.13948 | 0.256284 |
| 7  | 5.356478 | 25.36301 | 13.31466 | 20.87498 | 40.17647 | 0.270879 |
| 8  | 5.990108 | 20.88536 | 16.28320 | 30.25134 | 32.12651 | 0.453587 |
| 9  | 7.062877 | 20.23246 | 17.63780 | 37.93252 | 23.67401 | 0.523203 |
| 10 | 8.690905 | 16.81905 | 24.64130 | 40.45016 | 17.35957 | 0.729924 |

e)

| Taka<br>Period | S.E.     | RMG_BD   | ME_INDIA | ME_CHINA | INFLATION_BD | ER_TAKA_USD |
|----------------|----------|----------|----------|----------|--------------|-------------|
| 1              | 1.910309 | 46.58482 | 11.97630 | 1.781864 | 22.51884     | 17.13817    |
| 2              | 2.893670 | 36.28445 | 18.32059 | 2.093369 | 24.30913     | 18.99246    |
| 3              | 3.759099 | 40.04978 | 13.03776 | 2.549127 | 26.26105     | 18.10228    |
| 4              | 4.339844 | 32.41556 | 15.04489 | 1.914493 | 30.60436     | 20.02070    |
| 5              | 4.947855 | 34.78584 | 11.70977 | 1.517355 | 33.64896     | 18.33808    |
| 6              | 5.489276 | 28.76722 | 11.58167 | 2.527609 | 38.59146     | 18.53205    |
| 7              | 6.344214 | 28.55159 | 14.18302 | 2.479365 | 39.93246     | 14.85357    |
| 8              | 7.464984 | 29.70289 | 11.55642 | 5.845786 | 39.89929     | 12.99561    |
| 9              | 9.204696 | 26.29502 | 24.29934 | 5.322873 | 35.47672     | 8.606050    |
| 10             | 11.89541 | 38.73371 | 16.18853 | 9.427875 | 29.29971     | 6.350174    |

## DISCUSSION

Bangladesh must work collectively with its major trading partners, in particular China and India, in order to enjoy sustainable growth in the RMG industry. Bangladesh policy makers must look for trade policies that can provide mutual benefits to both parties. Trade statistics show that China and India are the greatest trade partners of Bangladesh with annual business dealing worth of over USD 4.5 billion and USD 3.5 billion respectively (Financial Express, 2011). Perhaps, economic co-operation in the form of economic union should be explored involving Bangladesh, China and India exclusively.

World Bank Report (1999) indicates that Bangladesh imports 2 to 3 billion yards of fabric annually to meet the export demands. Spinanger (2000) points out that Bangladesh will undoubtedly lose its ground of being on advantage side due to the shortage of supply of raw materials and the high financing costs. To overcome this situation he suggests that local entrepreneurs should take necessary steps to invest in the development of human resource skills at all levels so as to minimize wastage and to optimize capacity. Due to weak backward linkage within the RMG industry, Bangladesh loses out in terms of production lead time. It is worth to note the fact that on the average lead time, where China and India are taking only 40-60 and 50-70 days respectively, Bangladesh is taking 90-150 days (McDonald-Vollrath, 2005 and Haider, 2007).

Direct competition on manufacturing of same product segment along the RMG value chain should be avoided because such a policy will dampen both Bangladesh and its major trading partners in the long run. Specialization in the manufacturing of certain segment of the product value chain should be encouraged as this approach will not only enable both trading countries to produce at lower opportunity costs but also promote efficient allocation of resources. Although Bangladesh has slowly moved away from being a lower-end producer towards becoming a middle-end producer, majority of its production activities still focus on manufacturing lower-end products in the RMG value chain. Adopting better manufacturing technology in RMG industry coupled with skill upgrading among Bangladesh labour force will help improve the level of its competitiveness.

Policy studies on macroeconomic variables that can pose serious threat the economy, such as inflation, need to be carried out consistently. India lost its competitiveness in 2011 due to domestic inflation. Any policy that can curb national inflation should be deployed by Bangladesh monetary authorities so as to ensure the country's level of competitiveness is maintained. Similarly, monetary authority of Bangladesh must ensure strength in its exchange rate regime so as to promote price stability as well as to curtail cost-push inflation.

There is no doubt that trade liberalization may result in negative impact through the influx of foreign goods into the local market and hampering the growth of domestic industries. Within the free market economy, domestic industries must be prepared to face global competition. For instance, Bangladesh manufacturers must confront the highly subsidized products in the region particularly the import of fabric and yarn from India and China. It is important to note that the cotton and weaving industries of Bangladesh are currently facing huge threat and about to collapse as the Indian cotton is replacing the domestic industries gradually (BEU, 2011). Subsequently, unemployment rate in Bangladesh would grow further if necessary steps are not taken immediately.

## **CONCLUSION**

It is now evident that Bangladesh has strategically replaced its import-substituting economy with an export-led approach and adopts a highly competitive market mechanism. (Devaraja, 2011). Today, Bangladesh holds more than 4% share in the global clothing export-market and position itself as third largest garment exporting country in terms of value after China and Turkey (Shawon, 2011). Bangladesh Export Promotion Bureau forecasts more than USD 16 billion exports in 2011 fiscal year and expecting for about USD 25 billion by 2013. The strength of Bangladesh RMG industry lies on its low-cost skilled labour along with their creative skills in adding value to the apparels and easy operational procedure. All these key factors help sustain the growth of RMG industry of Bangladesh in the competitive global market. This paper finds that there is a significant long-term relationship between RMG export from Bangladesh and the three tested explanatory variables. From Granger Causality test, both merchandise exports from India and China 'Granger-Cause' the performance of RMG export from Bangladesh. However, when a dynamic simulation via Impulse Response is used, domestic inflation factor seems relevant in explaining the performance of RMG export from Bangladesh. The RMG industry is one of the vibrant source of economic growth in Bangladesh's export market which accounts for almost four fifth of our total export earnings (Murshid et al., 2009). The empirical findings from this study is consistent with the study by Mamun and Nath (2003) who acknowledge the importance of exports sector to generating economic growth for Bangladesh.

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## **THE SUSTAINABILITY OF WAQF MODEL IN EDUCATION**

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### **Abstract**

Waqf is referred as the permanent dedication by a Muslim of any property for any purpose recognized by the Muslim law as religious, pious or charitable. The process of Waqf involves the method of transferring personal wealth from someone (waqif) to whom ever waqif if desired. The institution of Waqf has been recognized to assist government in many ways such as less dependency of government in providing infrastructure to public, promotes public to involve in charitable activities, improves economics through increase opportunities for employment, businesses and productivities. In fact, the scope of Waqf is not only limited to immovable properties such as buildings and plants. Waqf can also be expanded in the form of moveable properties like books, medicinal instruments animals, weapons and etc. Thus, the scope of Waqf can be widely implemented in order to enhance value and benefit to the society as a whole. One of the most frequent areas that Waqf had been implemented for many years is in education.

Many Islamic states have instituted Waqf as one of the source for providing education services. For instance, during the Ottoman empire in Turkey, waqf institutions are commonly utilized for the establishment of religious school (madrasah) and mosque (masjid). There are several education institutions in Islamic states that are established from Waqf e.g. Kaherah University in Egypt, Fatih Sultan Mehmet Waqf University in Turkey and The King Abdullah University of Science and Technology in Saudi Arabia.

This paper attempts to address the issues of sustainability of Waqf model in education. It is argued that implementing the model of Waqf in education requires a thorough consideration and should be in accordance with the legal, financial and political aspect of the country. This paper will also discuss on the determinants of Waqf sustainability model in education and its challenges. The paper will look at the experience of other countries such as in Egypt, Turkey and other Islamic states in establishing the framework for the Waqf model in education. The aim of this paper is to provide input for the policy makers to draw an effective plan and structure of an education system based on Waqf model which subsequently will benefit the public as a whole as well as to the Islamic community.

**Keywords:** waqf, sustainability, Islamic economies

# **INDONESIA: ENTREPRENEURSHIP FOR THE NATION, CIPUTRA WAY CASE STUDY**

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## **Abstract**

Entrepreneurship is a world trend. From developing to developed country, entrepreneurship is encouraged and developed. In society, there is a growing need for entrepreneurship, particularly as economic growth has become a necessity in many countries. When large corporations downsize and reduce staff, the small- and medium-sized enterprise sector (SMEs) becomes more important. Entrepreneurship is a driving engine of Indonesian economy in the last decade, accounting for the vast majority of new job creation and the development of new innovative individuals who receive entrepreneurship training---at all ages--- are more likely to start a business, and, most importantly, to sustain and grow a business. And, there are the cornerstone of future economic growth, job creation, and wealth generation. Ciputra Way is an entrepreneurship education method which created by the founder of Ciputra Group, Mr Ciputra with emphasis at Entrepreneurship-Based Learning Model. Theories alone are not sufficient to help wannabe entrepreneurs learn, they also need to taste the real entrepreneurial life in order to really understand entrepreneurship. The purpose of this research is to discuss the roles of entrepreneurship education in order to make Indonesia leaps forward from developing to developed country.

**Keywords:** Entrepreneurship, Entrepreneurship Education, Ciputra Way

## **1. Introduction**

Understanding culture, like many other social science concepts has remained elusive (Bergmann, 2009) and yet its significance as a social phenomenon cannot be easily diminished. According to Fukuyama (2001), culture covers aspects to do with the values, norms, interpretations and modes of behaviour that symbolize societies or other social groups. On the other hand, Hofstede (1980) describes culture as a phenomenon that has to do with group affiliation as it is "collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede 1994, p.5). In his seminal work on culture, Hofstede (1980) came up with four variables – Power Distance (PD), Uncertainty Avoidance (UA), Individualism versus Collectivism (IC) and Masculinity versus Femininity (MF) through which he was able to characterize cultures. An additional cultural attribute, Long Term versus Short Term Orientation (LTO) was later added.

According to Bergmann (2009), Cantillon (1680 – 1734) was credited to be the earliest scientist that paid considerable attention to the field of entrepreneurship. The ‘entrepreneur’ was said to have first been acknowledged in Cantillon’s posthumous publication (1755) titled ‘Essai sur la Nature du Commerce en Général’. Since then, entrepreneurs have remained in the forefront of economic activity and growth. Even Adam Smith, who came up with the factors of production in his famous work *Wealth of Nations*, appear to rank entrepreneur a notch higher than other factors since the most important function of the businessman is to supply capital as an entrepreneur. In addition, as Iyer and Schoar (2008) confirms, economic theorists from Schumpeter to Baumol have highlighted entrepreneurship as the driving force for change and innovation in a capitalist system. Bygrave (1997) and Shane and Venkataraman (1996) sees entrepreneurship from the lens of opportunity recognition. Bygrave (1997), for example see an entrepreneur as someone who perceives opportunity and creates organization to pursue it. This view is supported by Kirzner (1985). T Kirzner, an entrepreneur is a decision maker whose entire role arises out of his alertness to unnoticed opportunities; therefore, entrepreneurship is the ability to perceive new opportunities. This paper aligns with Kirzner and Bygrave that entrepreneurship is associated with the ability to recognise opportunities and taking appropriate steps to realize them.

A diverse country by any means, Nigeria has three major ethnic groups: Hausa, Igbo and Yoruba plus about 250 ‘smaller’ ethnic groups. Though official figures on the population of these groups is not available because of a deliberate government policy, Kohnert (2010) claims that the three ethnic groups may make up of some 70 percent of Nigeria’s population. For Nigeria, ethnicity and ethnic relations are major challenges. The country also faces more than its fair share of ethnic related conflicts and social unrest much of which is attributed to poor economic condition and youth unemployment (Salami, 2011). A deliberate push by all towards entrepreneurship is seen as a way out of such problems. This paper therefore is an attempt to empirically investigate the impact of cultural attributes on entrepreneurship attitude of the three major ethnic groups of Nigeria – Hausa, Igbo and Yoruba using Hofstede’s dimensions of culture as yardsticks.

The research questions and hypotheses this paper seeks to address are:

1. To what extent do cultural attributes of the Nigerian three major ethnic groups differ?
2. To what extent is the culture of Nigeria’s three major ethnic groups likely to produce more entrepreneurs than the others?

Accordingly, the following hypotheses in null form are formulated to guide the study:

H<sub>01</sub> There are no significant differences in the cultural attributes of Nigeria’s three major ethnic nationalities.

H<sub>02</sub> None of the Nigeria’s three major ethnic groups cultures is likely to produce more entrepreneurs than others

It is important to clarify that this paper is not an attempt to examine which is more entrepreneurial. No. It is about which cultures are more likely to motivate its ‘followers’ to consider going into self employment.

## **2. Literature**

### **2.1 The Concept of Ethnic Group**

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According to the Wikipedia (2011), an ethnic group is a group of people whose members identify with each other, through a common heritage, often consisting of a common language, a common culture (often including a shared religion) and an ideology that stresses common ancestry or endogamy. Another definition says ethnicity is "...a highly biologically self-perpetuating group sharing an interest in a homeland connected with a specific geographical area, a common language and traditions, including food preferences, and a common religious faith". Members of an ethnic group are conscious of belonging to an ethnic group; moreover ethnic identity is further marked by the recognition from others of a group's distinctiveness. Processes that result in the emergence of such identification are called ethnogenesis.

Some scholars have different perception of ethnicity and ethnic groups. Weber (1930) for example, sees ethnic groups as artificial social constructs that are based on a subjective belief and that this 'belief' in shared community did not create the group, rather, the group created the belief. Barth (1969) an authority on issues of ethnicity also posits ethnicity as a phenomenon that is perpetually negotiated and renegotiated by both external attribution and internal self identification. His thesis is therefore a focus on the interconnectedness of ethnic identities. Cohen (1978) an anthropologist, claims that the label "ethnic groups" is imposed and may not conform to indigenous realities. This is because, as he pointed out, when an ethnic group's identification is by outsiders, e.g. anthropologists, it may not coincide with the self-identification of the members of that group.

Bacik (2002) has a different view about this. To him ethnicity stems from lineage. To this scholar, believes that members of an ethnically defined national grouping share certain common attributes including physical characteristic, culture, religion, language, and a common ancestry. This study aligns with Bacik because, for a multicultural nation like Nigeria, ethnicity is more than an artificial social construct. nor is it a subjective belief in shared community contrary to Cohen (1978). To that extent, Bacik's views appear to be closer to the accepted reality that the ethnic groups in Nigeria share some physical characteristics, a common language and culture and in some cases even religion.

## **2.2 Hofstede's Cultural Dimensions**

Hofstede (1980, 1991) asserts that culture is intangible yet a collective phenomenon that distinguishes one group, organisation or nation from another. It is made up of two main elements: its internal values - which are invisible - and external elements of culture - which are more visible. The external elements are expressed in practices (such as greetings) symbols (such as words and gestures). He distinguished between organizational and national culture. This is because organizational cultures could be distinguished one from the other by their practices, while national cultures can be differentiated by their values and that these national values are among the first things that are programmed into children. These are reinforced by the local environment, at school and at work and may not be easily lost later in life

A Dutch academic and former employee of the IBM, Geert Hofstede (b.1928), has become known for pioneering research on national and organisational cultures. He carried out his research among IBM over one hundred thousand employees across 50 countries, and concludes that people carry "mental programs" that are developed and reinforced through their experience, and that these "mental programs" contain a component of national culture (Hofstede, 1980, 1987, 1991). These mental programs denote the existence of four underlying value dimensions along which these countries could be positioned into culture areas. As Pralong (2008) opines, Hofstede sees a dimension as an aspect of a culture that can be measured relative to other cultures. In addition, a cultural dimension groups together a number of phenomena in society "which were empirically found to occur in combination, even if at first sight there does not seem to be a logical necessity for their going together."

Hofstede, initially developed four dimensions: Power distance, how a society handles inequalities; uncertainty avoidance, the need for structure; individualism/collectivism - behaviour towards the group and Masculinity/femininity - behaviour according to gender. A fifth dimension, Long Term Orientation (LTO) was introduced following the realization that Asian Cultures are different in ways that could not be captured merely via the original 4 dimensions. These are briefly discussed below.

**2.2.1 Power distance (PD) - how a society handles inequalities:** Power distance (PD) is according to Hofstede (1980), the degree to which the less powerful members or people within an organization/country expect and accept the inequality of power distribution among members of the organization/society. It also has to do with the degree to which unequal distribution of power and wealth is tolerated (Jones, 2007). Under this assertion therefore, in high power distance nations inequalities among people are considered desirable, there is greater reliance by the less powerful on those who hold power, centralisation is more normal, and subordinates are likely to be separated from their bosses by wide differentials in salary, privileges and status symbols. Japan and Malaysia according to Hofstede's findings are high power distance nations. However, using Hofstede PD dimension, (Newman 1996) found Japan and Malaysia to be nations that rank low in Hofstede's scale compared to say Israel and United Kingdom suggesting that changes could occur on these dimensions overtime.

**2.2.2 Uncertainty avoidance (UA) - the need for structure:** Hofstede (1980, 1987) sees uncertainty as the extent to which members of a culture feel threatened by uncertain or unknown situations and that cultures do differ in their degree of tolerance for uncertainty. Equally, the methods for coping with ambiguity are at least partially determined by cultural programming. Uncertainty avoidance (UA) is therefore the extent to which members of a society feel threatened by and try to avoid future uncertainty or ambiguous situations (Pheng and Yuquan 2002). It refers to the way in which people will deal with the future, whether they have inherent control, or whether events are beyond their control (fatalism). In societies where there is a need for structure it is because there is a fear of uncertainty. In the opinion of Abzari and Safari (2010), UA is an indicator of a group's level of anxiety concerning future events. And since the future is constantly evolving, UA always evaluates the extent of tolerance within a culture for ambiguity and that the level of anxiety experienced by members of a culture due to ambiguous events does indeed vary depending on each society's values and beliefs.

Additionally, Hofstede (1991) asserts that countries characterised by weak uncertainty do not perceive something different to be dangerous unlike societies with high UA. It is the opinion of Abzari and Safari (2010) that social relations in high UA societies tend to be relatively more formal. Also, workers in countries that score high on Hofstede's UA index tend to have strong loyalty to their organizations and have preference for large organizations because of a desire for job security. There is therefore minimal staff turnover unlike in societies with low UA where risk taking is also encouraged and conflicts among group members are, sometimes, viewed as having a potential to encourage competition and creativity.

**2.2.3 Masculinity/femininity (MF) - behaviour according to gender :** This has to do with the way society divide roles between sexes. Masculinity pertains to societies in which social gender roles are clearly distinct; whilst femininity pertains to societies in which social gender roles overlap (Hofstede, 1980). Another position is that the masculinity vs femininity dimension depicts the degree to which masculine traits like authority, assertiveness, performance and success are preferred to female characteristics like personal relationships, quality of life, service and welfare. In masculine societies there is division of labour such that the more assertive tasks are given to men. In a feminine society on the other hand, there is a stress on relationships, compromise, life skills and social performance. Societies that are high in MF have strong achievement motivation and markers of achievement such as earnings, formal recognition and advancement are relatively more important than work climate and relationship

issues (Abzari and Safari, 2010). Hofstede (1980) gave example of Japan and United Kingdom as a masculine society and Sweden and Norway as feminine societies. Schneider and Barsoux (1997) argue that people in the last two countries are likely to show more empathy for their fellow workers, they are likely to spend time on relationships and personal ties.

**2.2.4 Individualism/collectivism (IC) - behaviour towards the group:** In individualistic societies, relationship between individuals is loose: everyone is expected to look after himself or herself and his or her immediate family (Hofstede, 1980). On the contrary, collectivism occurs in societies in which people from birth onwards are integrated into strong, cohesive groups, which throughout their lifetime continue to protect them in exchange for unquestioning loyalty. In such societies, people need to belong to a group and have a loyalty to the group. Right from childhood, children learn to say 'we' more frequently than 'I'. Hofstede found this to be the situation for countries such as Japan, India and China. Redpath (1997) also found this to be true with Guatemala. The opposite was found to be the case in other societies such as in the United States and United Kingdom where individualism is more important, with a lower emphasis on loyalty and protection. In such societies, singular achievement is encouraged and the cultural upbringing is one which expects people to be independent at a very early age.

**2.2.5 Long Term Orientation (LTO):** Hofstede added a fifth dimension of culture – Long Term versus Short Term Orientation when he became better acquainted with eastern cultures. Referred to as the Long Term versus Short term Orientation (LTO), it was introduced following the realization that Asian Cultures are different in ways that could not be captured merely via the original 4 dimensions (Hofstede and Bond (1984). According to Hofstede, Asian cultures are not guided by the search for truth common in the West, but by concern with virtue. The dimension was added by Hofstede in conjunction with Asian researchers with the aim of identifying those cultures that possess that special brand of “Confucian dynamism” which, according to Hofstede, was responsible for the Asian Tigers’ economic prowess in the 60s and 70s. This study is not testing this particular dimension because even Hofstede had adopted it solely to capture aspects of Asian culture. In addition, as Pralong (2008) observes, Hofstede is a bit muddled as to whether this dimension even when applied to Asia, is meant to replace Uncertainty Avoidance or is to be used in addition to it.

Though Jones (2007) holds the view that Hofstede’s work on culture is the most widely cited in existence and that his observations and analysis provide scholars and practitioners with a highly valuable insight into the dynamics of cross-cultural relationships, he however agrees that such a groundbreaking body of work does not escape criticism. Among the most virulent critics is Brendan Mcsweeney, a onetime lecturer at the University of Essex. One of the most common criticisms is the fact that surveys are not a suitable way of measuring cultural differences because the variables being surveyed are culturally sensitive and subjective (Schwartz, 1999). Though such criticisms may be credible, one cannot easily dismiss Hofstede’s research in this area. It is one of the most widely used pieces of research among scholars in the fields of culture and entrepreneurship - a testimony to its many appealing attributes (Søndergaard 1994). In fact as far as 1994, Søndergaard (1994) found that Hofstede’s 1980 study received 1,036 citations. This was immense and a testimony to its credibility. Hofstede himself addresses this criticism saying that surveys are one method, but not the only method that was used (Hofstede 1998).

A second criticism is that it is erroneous to imagine as Hofstede did that nations are homogenous entities (Nasif et al. 1991, Redpath 1997). By ignoring variations of community influences, the outcomes have a possibility of arbitrariness (Dorfman and Howell 1988). Moreover, cultures as

McSweeney (2000) argues are not necessarily bounded by national borders. Thus, nations are not the proper units of analysis and nations are not the best units for studying cultures.

Hofstede (1998) agrees somehow with this criticism but points out however that national identities are the only means we have of identifying and measuring cultural differences (Hofstede 1998). And as Søndergaard's bibliographical analysis (1994) shows, out of 61 replications (research similar to Hofstede's IBM study, originated to compare his findings) of Hofstede's research, majority of the replications confirmed Hofstede's predictions, four of the replications concurred in their entirety, and 15 showed partial confirmation. Literature is awash with accolades and varied criticisms of Hofstede effort. But as Søndergaard (1994) argues, Hofstede's research is a groundbreaking effort that has laid the ground for future research in the area of cultural entrepreneurship.

By conducting a research on the three Nigerian major ethnic groups, this paper hopes to expand the frontiers of knowledge in the area of culture and entrepreneurship.

### **2.3 Empirical Studies on Culture and Entrepreneurship**

Scholars have for long been interested in examining the differences in entrepreneurial attributes between different nations and even regions within nations. Hayton et al (2002) for example, suggests that cultural values indicate the degree to which a society considers entrepreneurial behaviours, such as risk taking and independent thinking, to be desirable. Cultures that value and reward such behaviour promote a propensity to develop and introduce far-reaching innovation, whereas cultures that support conformity, group interests, and control over the future are less likely to show risk-taking and entrepreneurial behaviour. Shane, (1992, 1993) examined the association between Hofstede's dimensions of individualism and power-distance and national rates of innovation, concluding that individualism is positively associated and power-distance is negatively associated with national innovation rates, even after adjusting for the influence of national wealth. Davidsson (1995) examined six regions in Sweden with dissimilar structural characteristics, reporting systematic variation in values and beliefs as well as entrepreneurial intentions and new firm-formation rates.

Baum et al (1993), for example, compared the motivational needs of entrepreneurs and managers in the United States and Israel, noting that in spite of differences in roles, Israelis account for higher need for affiliation, lower need for achievement as well as higher need for independence thus reflecting expected national cultural differences. Abzari and Safari (2010) as well as Eroglu and Picak (2011) conducted separate studies that relate Hofstede's dimensions to entrepreneurship in Iran and Turkey respectively. Both studies confirm that broad cultural characteristics are associated with national levels of entrepreneurship. Specifically, high individualism, low uncertainty avoidance and low power-distance have all been found to be associated with national rates of innovation. According to Shane (1993) as well as Davidsson & Wiklund (1997), however, these relationships are not consistent over time and have not been systematically found with aggregate indicators of entrepreneurship.

A major feature of ethnic entrepreneurship research, however, is that a greater proportion were conducted in the West. This is perhaps because a greater share of the studies comparing ethnic groups' level of entrepreneurship have focused on immigrants who are more often seen as the 'ethnics' especially in the USA and Europe. In the USA for example, studies have been undertaken to compare levels of entrepreneurship of ethnic groups such as Chinese, Indians, Koreans, Cubans or blacks with white Caucasians (see for example, Waldinger 1986, Light and Bonacich 1988, Light 1972). Similar studies were conducted in the United Kingdom that

compare Asians, Black-Caribbeans and Whites (Ram, 1991; 1994; Ram, Abbas, Songhera and Hillin, 2000; Fadahunsi, Smallbone and Supri, 2000). This, despite the fact that more often than not as Deon et al. (1999) posits the mistake is always made whereby for example, Moroccans, Indonesians, Indians or Turkish ethnic groups residing in Europe or America are considered as one ethnic group although in their countries of origin they belong to different cultural backgrounds. Despite the error of generalization as pointed out above, the studies have, almost without exception found the immigrant groups to possess higher entrepreneurship traits than their hosts. For example, Bonacich (1973) asserts that sojourners (temporary migrants) are more likely than settlers (permanent migrants) to be entrepreneurs. This, he explains was because sojourning by its nature encourages thrift and hard work for persons whose ultimate aim is returning to their home country. Another reason given by Bonacich(1973) is a high degree of internal cohesion among sojourners, which assist them to compete with the rest of society.

Outside of the West, only a few studies appear to have been conducted on comparative ethnic entrepreneurship. One of these is South African study of three ‘ethnic’ groups, Indians, Europeans and Africans, which used data collected from 325 entrepreneurs in Durban, South Africa. Bruce (2003) finds significant difference between the ‘ethnic groups’ in their utilization of networks. Accordingly, the Indian and European entrepreneurs tend to have more extensive networks than the African entrepreneurs, although they spend less time establishing these networks. Also, Mungai and Ogot (2009) undertook a preliminary investigation into the differences in entrepreneurship attitude amongst four ethnic communities in Kenya – Kamba, Kalenjin, Kikuyu and Luo. They find significant differences between communities, suggesting that certain cultures may foster an entrepreneurial spirit within its members more than others. In addition, the levels of risk aversion and locus of control within members of the different ethnic communities were found to be positively correlated to the perception those communities have on entrepreneurship.

In a Global Entrepreneurship Monitor (GEM) Report on New Zealand (GEM, 2005), the entrepreneurship attitude of the Maori ethnic group was assessed. The aim was to measure Maori’s levels of entrepreneurial activity relative to the general population in New Zealand and with other countries. The research found the Traditional Maori society to have higher proportion of opportunity entrepreneurs amongst the New Zealand people. About 83% of Maori entrepreneurs are opportunity entrepreneurs, a respectable value even when compared to the levels in countries such as Canada, Austria, and the United States. In addition, the Maori have a higher rate of necessity entrepreneurship than the general New Zealand population. About 15% of Maori entrepreneurs are necessity entrepreneurs, a rate which puts it in the same rank as such countries as Singapore, Austria, and Italy. Wealth creation is seen as a secondary motive which fits the general New Zealand pattern. In addition, the study finds high rate of “seniorpreneurship” at 15% and the Maori women have the world’s third highest rate of early stage female entrepreneurial activity, at 12.3%. The women are also half as likely to be necessity entrepreneurs as Māori male entrepreneurs. Finally, the study finds that 12.3% of Maori entrepreneurs believe they will create 20 jobs in five years compared to 8.1% of the general population (NZ).

These studies are proofs that differences do exist in the entrepreneurship attitudes among communities and nations and that this was largely because of the respective cultures associated with each group or community, ethnic or otherwise.

#### **2.4 Review of the Entrepreneurial Culture of Nigeria’s Three Major Ethnic Groups**

Extant literature on entrepreneurial culture of the three major ethnic groups in Nigeria claims each of them to be quite enterprising. For example Kohnert (2010) reports that all the three groups played a decisive role all over West Africa as long distance traders from pre-colonial times and that in the process, they have set up trans-regional networks of migrant entrepreneurs since pre-colonial times. Some of the specific studies on each of the three ethnic groups are presented and reviewed below.

**2.4.1 The Hausa Culture and Entrepreneurship:** Available literature on entrepreneurship portrays the Hausa people as traders – long distance traders and entrepreneurs (Lovejoy, 1971; Mahdi, 1990; Stoller, 2002; Dana, 2007). In fact, Light (1972, 2001, 2010) listed the prominent ‘middleman minority’ ethnic groups to include amongst others; the Jews of Europe, the Hausa of Nigeria, the Sikhs of East Africa, the Chinese of South East Asia, the Armenians of Near East and the Parsees of India. According to Lovejoy (1971), the Hausa have a long history of trade including long distance caravan trade within various parts of present-day Nigeria and between the Hausa and the Gold Coast (Ghana) for example. Trade relations had characterized the relationships between the Hausa and most of the people of the interior of West and Central Africa since the 17 century. Ehigie and Umoren (2003) points to the dexterity of the Hausa ebony traders of Benin as Cohen (1971) and Stoller (2002) testifies to the Hausa trading networks. Zakaria (2001) on the other hand, reports that even Hausa women in seclusion, were engaged in various income generating undertakings (sana’a).

**2.4.2 The Igbo Culture and Entrepreneurship:** The Igbo, perhaps more than most other Nigerian ethnic groups, receives positive endorsement on their entrepreneurship acumen. Izugbara and Duru (2006), for example, describe them as rugged republicans, highly independent minded, consummate capitalists and aggressive entrepreneurs. Le Vine (1966) commended the Igbo along with some African ethnic groups like the Kikuyu in Kenya, the Chagga in Tanganyika, the Ewe in Ghana and the Bamileke in Cameroun as being exceptionally responsive to the economic incentives around them and even asserted that these ethnic groups are likely to retain this status of opportunism and industry for a long time. Le Vine (1966) argues that there is a clear difference between the Igbo, on the one hand, and the Hausa and Yoruba ethnic groups on the other, as regards levels of entrepreneurship. According to him, in the Igbo society, individuals are motivated to work hard and “cleverly marshal available resources of increasing wealth”. It’s the wealth built up that brings power rather than power bringing wealth as was the case with Hausa and to some extent Yoruba ethnic groups. Accordingly, the Igbo system promotes achievement orientation and is thus more entrepreneurial. In addition, with little or no government assistance, the Igbo have moved from trade to industry since the end of the civil war, and, as Olutayo (1999) suggests, the Igbo have institutionalised a system of apprenticeship in which young entrepreneurs are trained in various entrepreneurial activities whereas, the two other major ethnic groups – Hausa and Yoruba, do not have such apprenticeship system in place.

**2.4.3 The Yoruba Entrepreneurship Culture:** The entrepreneurial attitude and activities of Yoruba ethnic group features prominently in literature. For example McClelland (1961) made an attempt to compare the three major Nigerian ethnic groups on “Needs for Achievement” concluding that only the Yoruba score high on this parameter. This is because in his opinion, when the Yoruba are exposed to new opportunities they tend to produce stronger economic response than the other population groups. To buttress this, Olugbile (1997) gave as example the fact that banks owned by the Yoruba appear to operate more soundly than those of the others.

Also, Le Vine (1966) impliedly ranked the Yoruba second after the Igbos, in terms of entrepreneurship attitude in Nigeria. Olutayo (1999) additionally, stress that the location of Lagos and its nearness to Yoruba societies, coupled with the latter's earliest involvement in colonial administration and the location of multinational corporations in large proportion within Lagos gave the Yoruba a headway in establishing their own entrepreneurial outfits. In addition, Kohnert (2010) reports that the Yoruba form a large chunk of migrant traders in Ghana and Benin Republic.

However, extant literature on culture and entrepreneurship of Nigerians were largely based on opinions and perceptions; not empirically tested. Not much appear to have been done to empirically test such opinions. Specifically, no research in the Nigerian context has used the Hofstede model. This serves as a major lesson learnt as well as pinpoints a gap in the literature that requires this paper to bridge.

### 3. Methodology

Primary data was collected using questionnaire as instruments. The questionnaire was distributed in three of Nigerian sub regions: North west, South east and South west. This is because though the Hausa, Igbo and Yoruba ethnic groups can be found virtually all over the country (as they are active migrants), it was decided that better results could be obtained by surveying each ethnic group in its homeland –North West for the Hausa, South East for the Igbo and South West for the Yoruba. The selection of states was made based on stratified random selection criteria. In each of the randomly selected states, copies of the questionnaires were distributed in both urban and rural areas for better representation. The details are as provided in Table 1.

As the official policy of Nigeria is that ethnicity was not included in population data, there are no verifiable data of ethnic group population. Yemane 1972 technique was utilized to select the sample of respondents in each of the states selected using the official census results of the states surveyed.. The sample size arrived at was 399 A summary of the response rate for each zone showing the number of questionnaires administered and returned using Yemane (1972)'s guide is also presented in Table 1.

**Table 1: Summary of Responses to the Questionnaire**

| STATE | TOTAL POPULATION [by 2006 Census] | WORKING POPULATION [3/36=0.083] | SAMPLE SIZE [Using Yaman (1972)*] | DECOMPOSITION OF SAMPLE SIZE [Using Random Number Table] | QUESTIONNAIRES ADMINISTERED | QUESTIONNAIRES RETURNED | Response rate (%) |    |
|-------|-----------------------------------|---------------------------------|-----------------------------------|--|-----------------------------|-------------------------|-------------------|----|
|       | No.                               | No.                             | No.                               | Location [Urban/Rural]                                   | No.                         | No.                     | No.               |    |
| IMO   | 3,974,899                         | 329,917                         | 143                               | Owerri Municipal   | 73                          | 73                      | 62                | 85 |
|       |                                   |                                 |                                   | Okigwe   | 70                          | 70                      | 54                | 77 |
| SOKO  | 3,696,999                         | 306,857                         | 133                               | Sokoto   | 70                          | 70                      | 64                | 91 |

|              |                   |                |            |             |           |            |  |            |               |
|--------------|-------------------|----------------|------------|-------------|-----------|------------|--|------------|---------------|
| TO           |                   |                |            | South Wurno | 63        | 63         |  | 48         | 76            |
| OSUN         | 3,42e3,535        | 284,153        | 123        | Ife Central | 63        | 63         |  | 56         | 89            |
|              |                   |                |            | Iwo         | 60        | 60         |  | 52         | 87            |
| <b>TOTAL</b> | <b>11,095,433</b> | <b>920,927</b> | <b>399</b> |             | <b>39</b> | <b>399</b> |  | <b>306</b> | <b>84.2</b>   |
| <b>L</b>     |                   |                |            |             | <b>9</b>  |            |  |            | <b>[Ave.]</b> |

**Source: Author's survey and computation**

Upon further analysis of the returned questionnaire, however, 295 (74% and 96% of administered and returned questionnaires respectively) were found to have been duly completed.

Table 2 below gives the profile of the respondents by profession. As stated earlier, this research sought to obtain data from a homogenous sample. This was because of the desire to compare like with like and follows the general trend in comparative cultural entrepreneurship research like for example Mueller and Thomas (2000) who surveyed a sample of over 1,800 respondents in nine countries. All of them were third- and fourth year university students. For this research, the sample is made up of civil servants of the sampled states. From the above table, 71.19 percent of the respondents were teachers, 14.58 percent medical workers (Nurses, midwives, doctors etc) and 11.53 percent administrative officers (white collar civil servants). Less than three percent (2.71%) of the respondents did not specify their occupation. The respondents are not only homogenous as they were all state civil servants, they were also evenly distributed in their specific callings. The essence is that, testing a sample that is homogenous as these should bring out cultural and entrepreneurial attitude differences that might exist between the samples if any since they share similar features aside cultural peculiarities.

**Table.2 Profiles of Respondents – Respondents' by Professions**

| Sample/Professions | Teaching   |              | Medical Worker |              | Administrative |              | Others   |             | Total      |            |
|--------------------|------------|--------------|----------------|--------------|----------------|--------------|----------|-------------|------------|------------|
|                    | freq       | %            | Freq           | %            | Freq           | %            | freq     | %           | Freq       | %          |
| <b>Hausa</b>       | <b>71</b>  | <b>73.20</b> | <b>11</b>      | <b>11.34</b> | <b>8</b>       | <b>8.24</b>  | <b>7</b> | <b>7.22</b> | <b>97</b>  | <b>100</b> |
| <b>Igbo</b>        | <b>78</b>  | <b>78.79</b> | <b>15</b>      | <b>15.15</b> | <b>5</b>       | <b>5.05</b>  | <b>1</b> | <b>1.01</b> | <b>99</b>  | <b>100</b> |
| <b>Yoruba</b>      | <b>61</b>  | <b>61.62</b> | <b>17</b>      | <b>17.17</b> | <b>21</b>      | <b>21.21</b> | <b>-</b> | <b>-</b>    | <b>99</b>  | <b>100</b> |
| <b>Totals</b>      | <b>210</b> | <b>71.19</b> | <b>43</b>      | <b>14.58</b> | <b>34</b>      | <b>11.53</b> | <b>8</b> | <b>2.71</b> | <b>295</b> | <b>100</b> |

*Source:* Author's Field Survey December, 2011

#### **4. Analysis of results**

Statistical tests of the first null hypothesis: There are no significant differences in the cultural attributes of Nigeria's three major ethnic nationalities is presented in Table 1 below with a view to either accept or reject the hypothesis.

We employ the use of Analysis of variance (ANOVA) technique as well as its nonparametric equivalent (Kruskal-Wallis Test) to test the first and second hypotheses (the results are shown on Table 4). This is because; one way analysis of variance technique is suitable for making comparisons. In this case, the aim is comparing for significant difference among the three ethnic groups on four cultural variables developed by Hofstede (1980): Power Distance (PD), Uncertainty Avoidance (UA), Masculinity and Femininity (MF) and Individualism/Collectivism (IC).

The Null and Alternate Hypothesis is presented mathematically as follows:

$$H_0: [(PD - IC) - MF] - UA = 0; \text{ or } [PD - IC = 0; PD - MF = 0; PD - UA; IC - MF = 0; IC - UA = 0; MF - UA = 0]$$

$$H_1: H_0 \text{ is not true; or at least one relationship is different.}$$

Table 3 below presents a synopsis of the computations using the nonparametric equivalent of Anova –Kruskal Wallis computed at Level of Significance: 5%. The Decision Rule is that if asymptotic  $p$ -value is less than 0.05, reject  $H_0$  and if asymptotic  $p$ -value is greater or equal to 0.05, do not reject  $H_0$ .

**Table 3: Results from KRUSKAL WALLIS (ANOVA) on variations between communities on the four variables: Power Distance (PD), Uncertainty Avoidance (UA), Individualism vs Collectivism (IC) and Masculinity vs Femininity (MF)**

| RELATIONSHIP   | TEST STATISTIC   |    |                       | SIGNIFICANCE    | DECISION  | CONCLUSION   |
|--|------------------|----|-----------------------|-----------------|---|--|
|  | Chi-square value | Df | Asymptotic $p$ -value |                 |   |  |
| Power distance (PD) versus Individualism/collectivism (IC) | 7.316            | 6  | 0.293                 | Not significant | Do not reject $H_0$   | There is no difference between PD and IC             |
| Power distance (PD) versus Masculinity/femininity (MF)     | 16.310           | 6  | 0.012                 | Significant     | Reject $H_0$  | There is difference between PD and MF                |
| Power distance (PD) versus Uncertainty avoidance           | 8.105            | 6  | 0.231                 | Not significant | Do not reject $H_0$   | There is no significant difference between PD and UA |
| <i>Final verdict</i>                                       |                  |    |                       |                 | <i>At least one cultural attribute (Masculinity/femininity) is different from others, so we reject <math>H_0</math></i> |  |

Source: Compiled from author's computation

Table 1 above explains the variations between the three ethnic groups on the four variables: Power Distance (PD), Uncertainty Avoidance (UA), Individualism versus Collectivism (IC) and Masculinity versus Femininity (MF) by looking at relationship between the variables. Each variable is compared with the others and where asymptotic  $p$ -value is less than 0.05, we reject  $H_0$ . Alternatively if asymptotic  $p$ -value is greater or equal to 0.05, we do not reject  $H_0$ .

In this instance,  $H_0$  is rejected based on the Kruskal Wallis test. This is because significant difference is found to exist between Power Distance and Masculinity/Femininity variables in our data. This proves that there are significant differences between the cultural attributes of Nigeria's three major ethnic nationalities –Hausa, Igbo and Yoruba. This also proves, that Hofstede's lumping of all West African culture as same cannot be supported based on current realities.

Having established this, we then took steps, using descriptive statistics and Anova to investigate the actual differences and relative position of each of the ethnic groups on the four variables, PD, UA, IC and MF. This way, we should be able to also investigate our second hypothesis that none of the Nigeria's three major ethnic groups cultures is likely to produce more entrepreneurs. In this sense, we align with Eroglu and Picak (2011) that confirms that Hofstede's cultural dimensions are indispensable to entrepreneurship and that there are some evidence that broad cultural characteristics are associated with national levels of entrepreneurship. Specifically, we accept previous studies that relate high individualism and low uncertainty avoidance cultures to be more entrepreneurial (Shane, 1993; Abzari and Safari, 2010; and Eroglu and Picak, 2011). We also align with earlier researchers in accepting the position that low power-distance and high Masculinity and Femininity are significantly related to entrepreneurship (e.g Abzari and Safari, 2010; Mueller & Thomas, 2000; Thomas & Mueller, 2000; Mitchell et. al., 2007).

Accordingly, Table 4 below presents an analysis of variance between the three ethnic groups using power distance as a surrogate.

**Table 4: Descriptive and analysis of variance for significant difference among the ethnic group in the cultural attitudes using Power distance as a surrogate.**

|        | Descriptive |           | Analysis of variance (ANOVA) |                 |             |         |       |
|--------|-------------|-----------|------------------------------|-----------------|-------------|---------|-------|
|        | Mean        | Std. dev. | S.V                          | Sums of square. | Mean square | F Ratio | Prob. |
| Hausa  | 4.05        | 1.057     | Btw grp                      | 13.644          | 0.975       | 1.26    | 0.232 |
| Igbo   | 3.09        | 1.10      | Wth grp                      | 216.715         | 0.773       |         |       |
| Yoruba | 3.50        | 0.928     | Total                        | 230.359         |             |         |       |

**Source:** Computed by the Researcher, using Stata v. 9

The above table show the descriptive and analysis of variance for the test of significant difference among the ethnic group using power distance as cultural attitude. It was observed that the calculated F value is less than than the f critical value (1.96) with  $P = 0.232 > 0.05$ , therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. That is, there are no significant differences in the cultural attitudes of Nigeria's three major ethnic nationalities using Power distance as a surrogate. Nonetheless, the results shows the Hausa to have higher PD followed by the Yoruba and then Igbo. It should be noted that lower PD is associated with higher levels of entrepreneurship and in that sense, the Igbo rank higher, followed by the Yoruba and then the Hausa. It must however be stressed that the difference is not statistically significant.

**Table 5: Descriptive and analysis of variance for significant difference among the ethnic group in the cultural attitudes using Uncertainty Avoidance as a surrogate**

|        | Descriptive |           | Analysis of Variance (ANOVA) |              |             |         |        |
|--------|-------------|-----------|------------------------------|--------------|-------------|---------|--------|
|        | Mean        | Std. dev. | S.V                          | Sums of squ. | Mean square | F Ratio | Prob.  |
| Hausa  | 5.05        | 0.850     | Btw grp                      | 45.470       | 5.683       | 8.79    | 0.0000 |
| Igbo   | 5.57        | 0.839     | Wth grp                      | 184.888      | 0.646       |         |        |
| Yoruba | 5.92        | 0.614     | Total                        | 230.359      |             |         |        |

**Source:** Computed by the Researcher, using Stata v. 9

The above table show the descriptive and analysis of variance for the test of significant difference among the ethnic group using uncertainty avoidance as cultural attitude. It was observed that the calculated F value (8.79) is greater than the f critical value (1.96) with  $P = 0.000 < 0.05$ , therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. That is, there are significant differences in the cultural attitudes of Nigeria's three major ethnic nationalities using uncertainty avoidance attribute. Based on the above, the Yoruba have a higher mean followed by the Igbo and the Hausas, relatively, have the lowest UA. In line with our outlined position therefore, we can conclude that Hausa culture with the lowest UA is more likely to motivate towards entrepreneurship followed by the Igbo culture and then the Yoruba.

**Table 6: Descriptive and analysis of variance for significant difference among the ethnic group in the cultural attitudes using Masculinity/Femininity as a surrogate.**

|        | Descriptive |           | Analysis of Variance (ANOVA) |              |             |         |        |
|--------|-------------|-----------|------------------------------|--------------|-------------|---------|--------|
|        | Mean        | Std. dev. | S.V                          | Sums of squ. | Mean square | F Ratio | Prob.  |
| Hausa  | 4.12        | 1.215     | Btw grp                      | 9.169        | 0.764       | 0.97    | 0.4737 |
| Igbo   | 3.16        | 0.986     | Wth grp                      | 221.189      | 0.784       |         |        |
| Yoruba | 3.95        | 1.217     | Total                        | 230.359      |             |         |        |

**Source:** Computed by the Researcher, using Stata v. 9

The table above show the descriptive and analysis of variance for the test of significant difference among the ethnic group using masculinity and femininity as cultural attitude. It was observed that the calculated F (0.97) value is less than than the f critical value (1.96) with  $P = 0.4737 > 0.05$ , therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. That is, there are no significant differences in the cultural attitudes of Nigeria's three major ethnic nationalities using masculinity / femininity as surrogate. The cultural attitude of the Hausas was higher and least among the Ibos. A higher MF is associated with high potential for entrepreneurship. In this case therefore, Hausa culture, followed by the Yoruba culture rank higher when MF is used as surrogate. However, the difference is statistically insignificant.

**Table 7: Descriptive and analysis of variance for significant difference among the ethnic group in the cultural attitudes using Individualism / Collectivism as a surrogate.**

|  | Mean | Std. | S.V | Sums of | Mean | F Ratio | Prob. |
|--|------|------|-----|---------|------|---------|-------|
|  |      |      |     |         |      |         |       |

|        |      | dev.  |         | squ.    | square |      |       |
|--------|------|-------|---------|---------|--------|------|-------|
| Hausa  | 4.34 | 1.248 | Btw grp | 20.590  | 1.583  | 2.12 | 0.013 |
| Igbo   | 4.20 | 1.304 | Wth grp | 209.769 | 0.746  |      |       |
| Yoruba | 4.93 | 0.918 | Total   |         |        |      |       |

**Source:** Computed by the Researcher, using Stata v. 9

The table show the descriptive and analysis of variance for the test of significant difference among the ethnic group using individualism / collectivism as cultural attitude. It was observed that the calculated F value (2.12) is greater than the f critical value (1.96) with  $P = 0.013 < 0.05$ , therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. That is, there are significant differences in the cultural attitudes of Nigeria's three major ethnic nationalities using individualism/collectivism. The cultural attitude of the Yoruba was higher and least among the Igbos. In line with our established criteria therefore, the Yoruba culture is more individualistic and is thus more likely to motivate towards entrepreneurship followed by the Hausa and then Igbo cultures.

## 6. Findings, Implications and Conclusions

Some of our findings, their implications and conclusions are highlighted below:

- i. There are significant differences in the cultural attributes of Nigeria's three major ethnic groups – Hausa, Igbo and Yoruba when they are benchmarked using Hofstede cultural dimensions of Power Distance, Uncertainty Avoidance, Masculinity/femininity and Individualism/collectivism
- ii. Hofstede (1991) categorization of West African culture as one and the same is therefore faulty or would need to be revalidated
- iii. Though differences have been recorded in the mean responses on all four cultural attributes, significant differences were found only with respect to Uncertainty Avoidance and Individualism/collectivism attributes.
- iv. With a lower mean value of Uncertainty Avoidance (UA) construct, Hausa culture has a greater potential to produce entrepreneurs in line with previous research (Shane, 1993; Abzari and Safari, 2010, Eroglu and Picak, 2011) followed by the Igbo and then the Yoruba based on the UA construct.
- v. Yoruba culture is more individualistic of the three cultures followed by the Hausa culture. From the perspective of this construct therefore, Yoruba culture has a greater tendency to motivate towards entrepreneurship based on individualism/collectivism variable.
- vi. The Igbo have a lower mean value based on the Power Distance construct. With a lower mean value therefore, the Igbo ethnic group's culture has a greater potential to produce entrepreneurs in line with previous research (Abzari and Safari, 2010, Shane, 1993) followed by the Yoruba. The differences between the cultures is however not significant.
- vii. Hausa culture is more masculine than the other ethnic groups followed by the Yoruba culture. This means roles classification on gender basis is higher in Hausa culture. On the basis of Masculinity/ femininity construct therefore, Hausa culture has a greater tendency to motivate towards entrepreneurship. The differences is however not significant.

- viii. On the whole, Hausa culture appears to have an edge, followed by Yoruba culture on the potential to encourage others towards entrepreneurship when benchmarked against Hofstede's four dimensions of culture – Power Distance, Uncertainty Avoidance, Masculinity/femininity and Individualism/collectivism.
- Based on the findings, the paper recommends as follows:
- a. Efforts should be made by all concerned to identify and publicize the positive aspects of Nigerian entrepreneurial culture for the benefit of Nigerians in particular and humanity at large.
  - b. More research is required on Nigerian ethnic and cultural entrepreneurship especially with a view to understanding the workings of various trade networks. The fate and relative position of Nigerian immigrant entrepreneurs should be of interest to all.
  - c. Closely related to the above is the need to encourage Nigerian immigrant entrepreneurs to key into modern commerce to take advantage of evolving business opportunities. Traditional commerce may not serve the country's interest for long.

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## **CULTURE AND ENTREPRENEURSHIP: PRELIMINARY FINDINGS FROM NIGERIA'S MAJOR ETHNIC NATIONALITIES**

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### **Abstract**

**Objectives:** This is a pilot study that investigates the influence of culture on entrepreneurial attitude of Nigerians with particular reference to the three major ethnic groups. This is done with a view to learning some lessons that would benefit all Nigerians and others interested in Nigeria, in entrepreneurship and particularly cultural entrepreneurship. The study is sought to empirically establish whether cultural differences do exist between the ethnic groups using Hofstede's dimensions of culture and Robinson et al's Entrepreneurship Attitude Orientation (EAO).

**Theoretical Background/Previous Practice:** Hofstede's seminal study on culture finds that nations have different cultures shaped over the years. This study was benchmarked against Hofstede (1980) cultural study but is extended to examine differences in indigenous ethnic cultures and how that impact on entrepreneurship cultures of the ethnic groups. Some of Robinson et al.'s EAO scales were also investigated in an attempt to investigate ethnic entrepreneurship culture of the ethnic groups.

**Approach/Methods:** 204 Questionnaires were distributed within Kaduna metropolis, a cosmopolitan regional capital and the results show differences in the ethnic groups' culture and thus entrepreneurial attitudes. The study used Anova and its nonparametric equivalent (Kruskal Wallis) as well as Duncan Rankings to analyse the data.

**Results/Insights:** The study finds significant difference in the cultures of the three ethnic groups, as well as significant differences in some of the EAO sub-scales..

**Implications:** It is, therefore, concluded that the cultures of some of the ethnic groups in the country motivate members towards entrepreneurship more than others. There is need for a national study to confirm this and to also synthesize the positive entrepreneurial cultures and publicize these for the benefit of all.

## **THE MODEL OF PUBLIC ENTREPRENEURSHIP AND THE FINANCIAL PERFORMANCE IN THE STATE GOVERNMENT HIGHER EDUCATION INSTITUTIONS IN MALAYSIA**

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### **ABSTRACT**

This study is a theoretical debate on Public Entrepreneurship in the state government higher education institutions (HEIs) in Malaysia with a generally accepted conceptual model. The objective of the study is to describe the relationship between public entrepreneurship and the financial performance. It is proposed that the relationship between public entrepreneurship and financial performance is significant. Thus, the study recommends that the state government higher education institutions in Malaysia need to

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allow room for entrepreneurial activities, develop entrepreneurial principles and opportunities, and encourage entrepreneurial practices through the development of public entrepreneurial activities to bring positive effect to financial performance.

**Key Words:** Public Entrepreneurship, Financial Performance, Higher Education

## **1.1 Introduction**

The effectiveness and efficiency of the performance of the tertiary education institutions in Malaysia have been the burning issue since the last decade. To make the higher education sub-sector as the top most industry of Malaysia in next 15 years is the milestone of the Malaysian government. To cope with the situation the entrepreneurial activities and mindset are the basic features. The concept of public entrepreneurship is the new genre that can manifest the performance of higher education institutions in Malaysia. There have been the several studies that test the non-financial indicators of performance in the light of entrepreneurial orientation. But the research involves the financial measures of organizational performance. The past literature has significantly verifies the four indicators of public entrepreneurship which are structure, managerial strategy, culture and environment. But this investigation is the challenging in its kind that it addresses the financial indicators of performance in the light of public entrepreneurial concept within the context of Malaysian Public Sector higher Education Institutions. So, this research answers the following questions.

### **1.1.1 Research Questions:**

- 1) What is the public entrepreneurship at organizational-level in the higher education sub-sector of Malaysia?
- 2) What is the financial dimension of organizational performance in the higher education sub-sector of Malaysia?
- 3) What is the relationship between public entrepreneurship and financial performance in the higher education sub-sector of Malaysia?

### **1.1.2 Objectives of the Research:**

The objectives of the study are based on exploring the relationship between Public Entrepreneurship and the Financial Performance in the state government higher education institutions of Malaysia.

- 1) To determine a significant relationship between structure and financial performance.
- 2) To determine a significant relationship between management and financial performance.
- 3) To determine a significant relationship between cultural and financial performance.
- 4) To determine a significant relationship between environment and financial performance.

### **1.1.3 Purpose of the Research:**

The purpose of this study was to explore the relationship between Public Entrepreneurship and the financial performance within the context of Malaysian State Government Higher Education Sector. This study drew upon the fields of public entrepreneurship financial performance in private, public, and nonprofit sectors. It focused on the organizational context of entrepreneurship.

## **1.2 Public Entrepreneurship in the State Government Higher Education Institutions in Malaysia:**

Education is the basic need of every society. A better education system can improve a country's social, scientific, and technological capabilities and capacities. The quality of education imparted in a country is the only tool to develop human resources (Mohanthy, 2000). Allen (1988) argued, "It is academically consider suitable to present distinctive feature of two stages for the purpose of clarity of concepts and avoiding duplication". Thereupon, according to Best (1994)

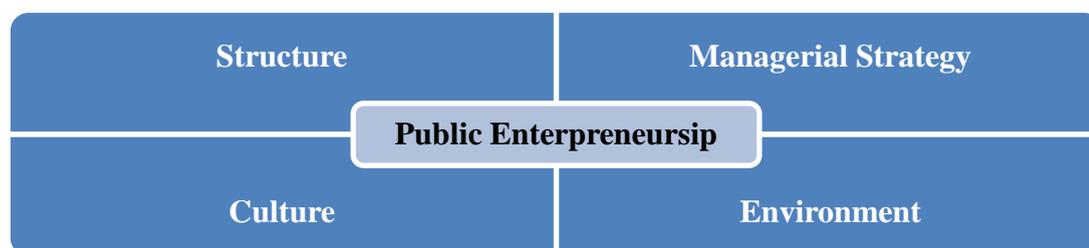
higher education is distinctively a separate stage quite different from primary, secondary, elementary, and higher secondary stage.

For socio-economic and development of a country higher education is considered as a capital investment (Barnet, 1990). It is foremost responsibility of the institution of higher education to equip individuals with advanced knowledge and skills required to serve in government, business and other professions (Mughal & Manzoor, 1999). Stone, Horejs, and Lomas (1997) stated, “The nation can be transformed into a developed nation within the life time of a single generation”. According to Mughal and Manzoor (1999) the elements such as the distinctive nature of higher education institutions, international mobility of students, and teachers’ accessibility of computer based learning, pursuit of research and scholarship, globalization of economy, and emerging challenges of the 21st century have a direct impact on the future development of higher education.

The entrepreneurial behaviors in larger organizations, generally, have been termed public entrepreneurship. It is observed that the diffusion and adoption of public entrepreneurship has positively affected organizations’ performance (Sambrook & Roberts, 2005). McGrath and McMillan (2000), for instance, observed entrepreneurial behaviors in global companies such as Citibank, General Electric, and Honda led to breakthrough products and services, development of new technologies, and increased performance. Accordingly, several researchers have tried to isolate the organizational factors that promote public entrepreneurship.

### 1.3 Indicators of Public Entrepreneurship in the State Government Higher Education Institutions:

Organization-driven public entrepreneurship focuses on the improvement in risk-taking, innovativeness, and pro-activeness, and the development of entrepreneurial activities. An entrepreneurial public organization means being output-focused, encouraging competition, promoting participatory decision making, and measuring performance. Despite a thorough review of the literature on the characteristics of entrepreneurial orientation in a public sector, the indicators that determine public entrepreneurship have been less empirically researched in an organizational setting (Younhee, 2007). Here, indicators are extracted that indicate a public organization to be entrepreneurial and are grouped into four factor clusters: structural, managerial, cultural and environmental. Figure 1.3 presents all indicators of public entrepreneurship in the higher education sector.



**Figure 1.3**  
**Four Indicators of Public Entrepreneurship**

### ***1.3.1 Structure***

The organizational structures can be the indicators of public entrepreneurship in the state government higher education institutions derived from the public entrepreneurship literature that includes four elements: hierarchy, formalization, flexibility and organizational size. Several authors (Covin & Slevin 1990; Cornwall & Perlman, 1990) argue that entrepreneurial tendency in an organization can be improved and influenced by the organizational structures which ultimately results in the organizational performance.

### ***1.3.2 Managerial Strategy***

The review of public entrepreneurship literature depicts managerial strategy as an indicator of public entrepreneurship in the state government higher education institutions that includes three elements: autonomy, participatory decision making, and specialization (Younhee, 2007; Javed, 2012).

### ***1.3.3 Culture***

The review of public entrepreneurship literature verifies the aspect of cultural as an indicator of public entrepreneurship that comprised of three elements: goal ambiguity and multiplicity (Drucker, 1996; Hall, 1996), accountability, and performance objectives (Younhee, 2007). According to Hall cultural aspect of the organization refers to norms, symbols, and values shared by organizational members. So, cultural is important to understand, develop or to maintain the entrepreneurial organizations (Cornwell & Perlman, 1990). In organizational settings entrepreneurship has a greater role. According to Younhee (2007) for greater degree of innovation an organization should flourish an entrepreneurial cultural.

### ***1.3.4 Environment***

The fourth indicator of public entrepreneurship in the state government higher education institutions has been derived from the entrepreneurship literature is the organizational environment and this includes the three elements: legal liability, political influence, media attention and external perceived competition. This indicator have direct implication for searching entrepreneurial opportunities and their effects (Davidson et al. 2001). The organizations capacity to behave entrepreneurially is influenced by the operating environment of an organization (Younhee, 2007). According to Covin and Slevin (1990) to understand entrepreneurial opportunities and entrepreneurial organizations the consideration of environmental factors is fundamental.

## **1.4 Organizational Performance**

Understanding and improving performance is a central aim of entrepreneurship research (Covin & Slevin, 1991; Murphy, Trailer, & Hill, 1996). Researchers suggest that organizational-level entrepreneurship leads to improved performance (Brown, 1996; Naman & Slevin, 1993; Zahra, 1996; Zahra & Covin, 1995). Studies have included both objective measures which are obtained from organizational records and subjective measures which are perceptions collected from organizational members and stakeholders (Campbell, 1977). Rigorous empirical research examining the link between entrepreneurship and performance is still limited (Covin & Slevin, 1991; Zahra & Covin, 1995). Recognizing the multidimensional nature of the performance construct, Lumpkin and Dess (1996) recommend using multiple performance measures, such as financial indicators, satisfaction with overall performance, and stakeholder support (Voss, Voss &

Moorman, 2004). The immense debate on what measures are preferable when measuring performance has revolved around the use of financial or non-financial indicators (Hayes & Abernathy, 1980; Johnson & Kaplan, 1987). In addition to financial indicators, the literature has mentioned several possible non-financial outcomes to evaluate the potential influence of entrepreneurship on organizational performance (Bromwich & Bhimani, 1994; Zahra, 1993). Some of the very best managerial actions and innovations do not yield measurable financial performance but they define the organization and give meaning to its different activities (Kanter, 1989).

#### ***1.4.1 Financial Performance:***

Financial measures of organizational performance Federal formula funds remain vital to the overall funding of public organizations, leveraging substantial state and local appropriations, as well as laying the foundation for strong nationwide public departments. Although non-competitive federal funds have remained relatively flat, what has changed is the percentage of the total budget these federal funds now represent in overall funding, as well as the percentage these funds represent within each organization's overall funding mix. Appropriated budget cuts at the federal, state, or local levels have been the driving force for public organizations to emphasize non-appropriated funding. Non-appropriated revenue was defined by ECOP's Personnel and Organizational Development Committee (PODC) as monies that were not appropriated directly to the research units by federal, state, and local governments.

Public appropriated funding has shifted and public organizations now generate revenue through various funding sources. Part of the funding mix for the public organizations has been federal financial support in the form of traditional formula funds, as well as in the form of new competitive funding models targeted toward specialized programs. State and local governments also contribute to the funding mix, but the percentage contributed varies across the country. Each organization has responded to a shifting funding mix by developing a variety of approaches that are aimed at maintaining and increasing state and local funds, as well as generating revenue through grants and contracts; fee-based programming and publications; event sponsorships; development of local or state foundation activity; and other types of fund raising. Most of Malaysian public sector higher education institutions now rely on external grants, contracts, and other non-appropriated funding for a growing portion budgets.

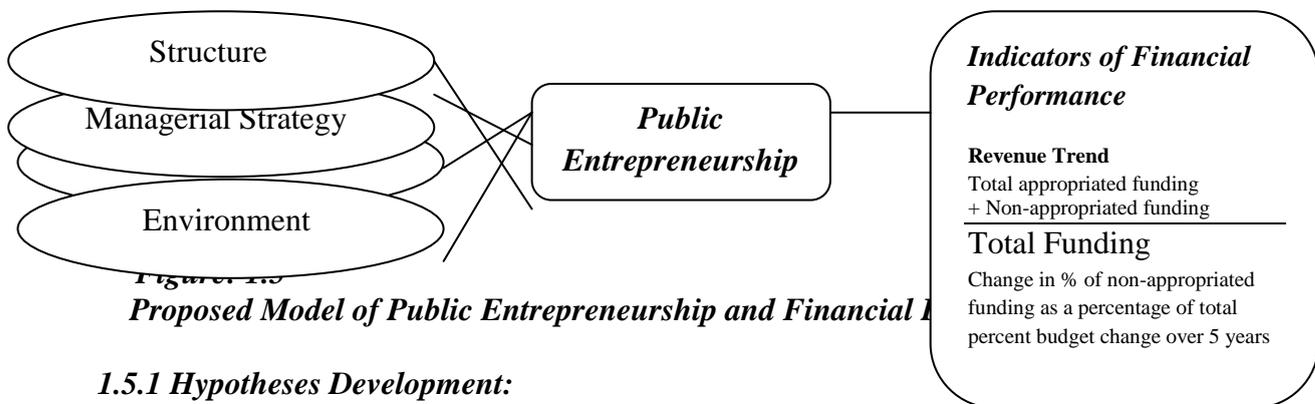
### **1.5 Theoretical Framework and Hypothesis Development**

Covin and Slevin (1991) define entrepreneurship as a combination of top management risk taking, extensiveness and frequency of product innovation, and the firm's propensity to initiate competitive behavior with industry rivals. These factors are influenced by the company's environmental characteristics, its business and mission strategies, and organizational variables such as resources and competencies, structure, culture, and management values (Russell, 1999). Russell (1999) describes organizational entrepreneurship as a dynamic social process involving environment, strategy, and organizational structure and culture. The have examined organizational environment, managerial strategy, structure, and culture in detail. As a result of a thorough literature review and the subsequent theoretical gaps identified, the research framework of the study used the following framework to test the hypotheses postulated.

**Independent Variable:  
Public Entrepreneurship**

**Dependent Variable:  
Financial Performance**

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**Figure 1.3**  
**Proposed Model of Public Entrepreneurship and Financial Performance**

**1.5.1 Hypotheses Development:**

This section discusses on hypotheses development based on the past relevant literature. Therefore, the following sub-sections discuss the hypotheses in line with the research questions and objectives of the research. However, all the statements of the hypotheses are in the alternative forms.

- H1:* There is a significant relationship between structure and financial performance.
- H2:* There is a significant relationship between managerial strategy and financial performance.
- H3:* There is a significant relationship between culture and financial performance.
- H4:* There is a significant relationship between environment and financial performance.

**1.6 Methodology:**

This research is classified as non-experimental quantitative research. This study did not seek to demonstrate causality, but explored the extent to which organizational entrepreneurship was associated with financial performance within the state government higher education institution of Malaysia.

The University Chancellors, Vice- Chancellors and Deans of Malaysian state government higher education institutions are targeted for data collection because they are typically the most knowledgeable persons regarding their organizations’ strategies and overall business situations (Hambrick, 1982).

Data will be gathered through a single informant survey (Appendix A). There are a number of advantages to using only a single informant (Lyons, Lumpkin, & Dess, 2000). Glick et al. (1990) noted there was a high likelihood that the most senior manager is the most knowledgeable individual in the organization to provide the information. Entrepreneurship studies have often used self-reports to gather performance data and they have been shown to be reliable (Schulze, Lubatkin, Dino, & Buchholz, 2001).

*Independent variable: Public Entrepreneurship*

The first part of the instruments is an organizational-level scale for Public Entrepreneurship which is based on a modified instrument developed by (Younhee, 2007).

*Dependent variable: Financial Performance*

The second part of the instruments focuses on Financial Performance. Identifying the rate of revenue change permits an assessment of the economic success of the organization (Sexton & Smilor, 1997; Fox, 2005).

Data will be entered and analyzed through multiple regressions and other descriptive statistics, using SPSS, a statistical software program commonly used for analyzing research data (Norusis, 2004). Regression analysis is the most widely used and versatile dependence technique, applicable in every facet of business decision making (Hair, Anderson, Tatham, & Black, 1998).

The independent variable, public Entrepreneurship consisted of four sub dimensions structure, managerial strategy, cultural and environment. Data from the will be recorded as needed for consistent reporting of 1 as an indication of a less entrepreneurial organization and 7 as an indication of a more entrepreneurial organization. The dependent variable, Organizational Performance, consisted of financial revenue trend indicators, including the percentage change in total funding for the past five years (2007-2011) and the percentage change in non-appropriated revenue as a percentage of the total funding change, for the past five years. These two trend indicators were calculated based on funding data from the year 2002 and the year 2006.

Analysis included screening data for potential errors, assessing the variables for meeting the assumptions of regression, exploring potential moderating factors, examining co-linearity statistics and residuals, and considering non-response bias. Results will be reported in statistical summaries and in aggregate by region so that information about individual organizations could not be identified. Using Davis (1971) as a guide, the absolute value of numbers was described with low |.10 to .29|, moderate|.30 to .49|, substantial |.50 to .69|, and very high |.70 to .99|.

**1.7 Conclusion:**

Through survey research with The University Chancellors, Vice- Chancellors and Deans, this research will examine the extent to which organizational-level entrepreneurship is evident in Malaysian state government higher education institutions throughout Malaysia. This investigation will also find how much the state government higher education institutions in Malaysia increase in total funding and high level of financial performance. Also, the field of entrepreneurship provides insight through valuable theory and practice. When adopted these principles in the Malaysian higher education sub-sector will not necessarily result in a high degree of entrepreneurial intensity all of the time and in all situations. However, development of a public entrepreneurial behavior within tertiary education sector in Malaysia can improve financial performance as the principles become embedded throughout the institutions. The framework can be used for higher education institutions to build upon the rich history of the institutions and maximize new opportunities most relevant for the future.

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## **CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE OF LOCAL COMMERCIAL BANKS IN MALAYSIA**

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### **Abstract**

**Purpose** – The purpose of this article is to examine the corporate responsibility (CSR) disclosures in Malaysian local commercial banks annual reports.

**Design/methodology/approach** – A sample consisting of 8 local commercial banks are used for this study. The sole venue of disclosures is the annual reports. This study performs content analysis, descriptive statistics and statistical tests on annual reports for three years, from 2005 until 2007.

**Findings** – This study finds that among the eight local commercial banks, there is considerable variability in the amount of CSR disclosure in annual reports. Result from t-test analysis show that there is no significant difference in CSR disclosure for local commercial banks after the introduction of Silver Book. Result from Spearman Rank Correlation shows all eight local commercial banks have similar preference of priority as to which core areas to be emphasized in their CSR disclosure.

**Research limitations/implications** – The details of 31 variables used are also considered small because some researcher used 863 variables for the same study. It makes the sample size for this study small compared to other international studies and the longitudinal period is rather limited.

**Practical implications** – The findings appear to suggest that the level of CSR disclosure in annual reports of local commercial banks was inconsistent. There is a huge gap between the highest level of disclosure and the least level of disclosure among the banks.. The results raise question of silver

books influences on CSR reporting for Malaysian Banks. The result also showed that most local commercial banks have the same interest in particular CSR activities.

**Keywords** – Corporate social responsibility, Annual reports, local commercial banks, core areas, silver book.

**Paper type** – Research paper.

## INTRODUCTION

The last few decades have seen an increase in awareness on the part of corporate entities in Western democracies in that they are morally obliged to give something back to society. An entity that fails to make a positive contribution to society will be perceived as being socially irresponsible. To demonstrate that they “care” about the people and environment they operate in, organisations have taken different courses of action. The corporate social responsibility (CSR) reports which have now become a part of annual report in addition to the traditional annual financial reports is one of the vehicles used to demonstrate how caring they have been over the financial period that has just ended and how they intend to continue to be even more so in future periods. Companies can use their website or the annual report as communication tools for voluntary disclosure of non-financial information, such as ethical behaviour to their various stakeholders, including shareholders, employees, customers, suppliers, media and the government, and to develop a particular brand image for the organisation. (Berkey, 1990; Hopwood, 1996; Judd and Timms, 1991; Neu, Warsame and Pedwell, 1998; Stanton and Stanton, 2002)

Definitions of CSR and sustainability range from the basic to the most demanding, from a specific reference to a number of necessary activities to demonstrate responsibility, to a general call for a comprehensive, integrated and committed pursuit of social and environmental sustainability. The following are a range of CSR definitions from ascending order, from the least to the most demanding:

- The obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society (Bowen, 1953).
- The process of communicating the social and environmental effects of organisations’ economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicted upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders (Gray et al., 1987).
- The commitment of business to contribute to sustainable economic development by working with their employees, their families, the local community and society at large to improve their lives in ways which are good for business and for development (World Business Council for Sustainable Development, 2002).
- Corporate social responsibility is at heart a process of managing the costs and benefits of business activity to both internal (for example workers, shareholders, investors) and external (institutions of public governance, community members, civil society groups, other enterprises) stakeholders. Setting the boundaries for how those costs and benefits are managed is partly a question of business policy and partly a question of public governance (World Bank, 2002).

The concept of corporate social responsibility (CSR) refers to the general belief held by growing numbers of citizens that modern businesses have responsibilities to society that extend beyond their obligations to the stockholders or investors of firm in the firm. The obligation to investors, of course, is to generate profits for the owners and maximize long-term wealth of shareholders. Other societal stakeholders that business would also have some responsibility to typically include consumers, employees, the community at large, government and the natural environment. The CSR concept applies to all size organizations, but discussions tend to focus to local commercial banks because they tend to be more visible, have more power, turnover and profit.

Most of the listed companies in Malaysia are embracing contributions to society as a core part of their business. In return, these companies benefit from increasing interest from socially responsible investors, facilitating access to global markets, justifying a price premium on products and services, strengthening market presence and goodwill, identifying new and innovative commercial opportunities, improving risk management practices and lastly, attracting and retaining a talented workforce.

## **OBJECTIVES OF THE STUDY**

This study is conducted to achieve the following objectives:

1. To identify which banks disclosed the most Corporate Social Responsibilities Disclosures.
2. To analyse whether the introduction of Silver Book by late 2006 has significant impact to local commercial banks CSR disclosures.
3. To examine core areas of CSR disclosures for local commercial banks and to find out whether they have different priorities of core areas.

## **Development of CSR in Malaysia**

One of the earliest studies on the development of CSR in Malaysia was carried out by Teoh and Thong (1984). This study examined various aspects of corporate social performance, including social reporting. The authors surmised that companies were mainly involved in areas of human resource, product service, community work and the physical environment. Human resource related activities topped the list of social involvement by the companies surveyed.

An interesting finding from the 1984 study was the mismatch between the level of actual corporate social involvement and the reporting of such activities. In the case of private companies, this mismatch was attributed to the limited circulation of the annual reports. For public companies, disclosure of their social involvement were made in the form of passing references in the Chairman's statements, since annual reports were traditionally kept very brief. Based on these findings, the researchers concluded that Malaysian companies were, on the whole, rather conservative in their attitudes towards CSR (Teoh and Thong, 1984). Later studies focused on the level of reporting, the themes, and the type of news disclosed. As late as the closing years of the

twentieth century, CSR practices of Malaysian companies were still very low (Shireenjit and Zuani, 1998). The situation however, started to improve in early 2000 (Thompson and Zakaria, 2004).

The early studies offered some plausible explanations for the low disclosure. Among others, the absence of legislation on the matter (Teoh and Thong, 1984, Nik Nazli and Maliah, 2004) and the low level of awareness of the business community of their companies' potential environmental impact (Perry and Teng, 1998) were mentioned. Subsequent studies found Malaysian CSR as being mostly declarative, narrative in nature and mere references to general commitments (Nik Nazli and Maliah, 2004; Thompson and Zakaria, 2004). In terms of the themes, human resources topped the list of disclosed items that include social, environmental, and product responsibility. Some studies further investigated CSR in relation to firm characteristics, and found that such characteristics as size, industry and profitability (Andrew et al., 1989; Thompson and Zakaria, 2004) were significant.

Although the literature points to an increasing CSR trend, the motivations behind such disclosure are seldom clear. Studies in the developed countries indicate that an increase in CSR over time can be attributed to legislation, demands of ethical investors and pressure groups, specific events, awards, economic activities, media interest, societal awareness and politics (Deegan, 2002). In the Malaysian context, the drivers of CSR are increasingly being investigated (Zain, 1999; ACCA, 2002; Haniffa and Cooke, 2002; Amran and Susela, 2004). Zain's (1999) study was based on interviews with local managers. The study highlighted the motivation for their disclosure as being linked to government influence, a desire to follow latest trends and also a commitment to Vision 2020.

Haniffa and Cooke (2002) explored the influence of culture and corporate governance structure on CSR. On corporate governance structure, the study found that companies with more family members on the board disclosed less. In addition, companies with independent non-executive directors tend to disclose less as compared to companies with executive directors as chairpersons. As far as the cultural dimension is concerned, the study did not establish any significant relationships, but found some evidence of foreign influence through foreign shareholding. In a more recent study by Sumiani et al. (2007), it was found that companies with ISO 14000 certification tend to make some form of disclosure.

## **Underlying theories**

There is no specific theory that can explain the variations in CSR disclosure practiced among companies (Belkout, 1989; Gray et al. 1995 and Gray, 2000). However, among the better known general theories employed in many CSR disclosure studies are the stakeholder theory, legitimacy theory and social contract theory. These theories aim to explain the variation in CSR disclosure practice by companies.

## **Stakeholder Theory**

Corporate stakeholders have the right to know what contributions corporate entities are making to society. The provision of information that satisfies this need is known as accountability; hence Gray et al. (1995) defined accountability as "the duty to provide an account of action or reckoning of those actions for which one is held responsible". Hackston and Milne (1996) also supported the view that corporate entities should be held responsible for their actions, which affect society. In the

light of this, a recent survey (DTI, 2001) of 45 global and large companies operating in the European Union (EU) showed that over 90 per cent reported on their mission, vision and values, workplace climate, community involvement, local economic development, market place and environmental impact.

Freeman (1984) defines the stakeholder theory as one which, “any group of individual can be affected by the achievement of the organisation objectives”. According to Goodpaster, Kenneth, and Gary (1995), the stakeholder theory specifically examines the strategic decision made by companies for their continued success. Under this theory, Moir (2001) suggests that the motivating factor driving management to disclose social information is the stakeholder group that managers wish to pay attention to. Ruf et al. (2001) employs the stakeholder theory to examine the relationship between social disclosure and financial performance, and finds that CSR disclosure has a positive association with short-term financial performance.

### **Legitimacy Theory**

The legitimacy theory predicts that CSR disclosure reacts to economic, social, political influences and that disclosure will legitimize actions taken by the companies. This theory is based on the assumption that business operates in the society by way of social contract which obliges them to perform various social responsibilities in order to accomplish their objectives. Cormior and Gordon (2001) and Gray et al. (1995) outline four broad legitimized strategies proposed by Dowling and Pfeffer (1975) and Lindblom (1994) when organisations face a legitimacy threat.

This first strategy is to educate society about the organisation’s intention to improve its performance or change its action. The second strategy is “to alter how society perceives an organisation’s intention to improve its performance or change its action” (Cormoir and Gordon, 2001). The third strategy is to divert or manipulate attention away from issues of concern to society to other alternatives issues. The last strategy is to change or alter society’s expectations about an organisation’s performance.

Given these strategies, it is presumed that the legitimacy theory would provide information that legitimates organisation behaviour with the aim of influencing society and stakeholder perceptions about the companies. This study will focus on legitimacy theory in explaining CSR disclosure practices by Non-GLCs and GLCs, a theory that currently dominates many CSR disclosure studies (Gray et al. 1995, 2001; Hogner, 2000; Newson and Deegan, 2002).

### **Social Contract Theory**

Social Contract Theory, nearly as old as philosophy itself, is the view that persons' moral and/or political obligations are dependent upon a contract or agreement between them to form society. Socrates uses something quite like a social contract argument to explain to Crito<sup>47</sup> why he must

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<sup>47</sup> The Crito (Ancient Greek: Κρίτων) is a short but important dialogue by the ancient Greek philosopher Plato.

remain in prison and accept the death penalty. However, Social Contract Theory is rightly associated with modern moral and political theory and is given its first full exposition and defense by Thomas Hobbes (Skinner, 1978).

More recently, philosophers from different perspectives have criticized Social Contract Theory. In particular, feminists and race-conscious philosophers have argued that social contract theory is at least an incomplete picture of our moral and political lives, and may in fact camouflage some of the ways in which the contract is itself parasitical upon the subjugations of classes of persons. (Kary, 2000)

Under the social contract theory, CSR disclosure postulates that a business will act in a responsible manner not because of its commercial interest but because it is a part of society where it operates.(Gray, 1995)

## **CSR disclosure**

CSR is defined broadly as “including the concern for the impact of all of the corporation's activities on the total welfare of society” (Bowman and Haire 1976). This assumes that the entity is influenced by and, in turn, has influence upon the society in which it operates (Deegan 2002; Farook and Lanis 2005). In that context, CSR disclosure are “ ... the process of providing information designed to discharge social accountability. Typically this act would ... be undertaken by the accountable organisation and thus might include information in the annual report, special publications or even socially oriented advertising” (Gray, Owen and Maunders 1987). This indicates that CSR disclosure is a method by which management can interact with the broader society to “influence external perceptions about their organisation” (Deegan 2002).

A number of theories have been proposed to explain why corporations voluntarily disclose CSR information, such as political economy, legitimacy and stakeholder theories (Wilmhurst and Frost 1999; Deegan 2002; Campbell, Craven and Shrivies 2002). Systems oriented theories such as these propose that individuals, institutions and organisations, seeking to preserve their own self-interest, attempt to operate and interact within the system through various relationships with others (Williams 1999). The relationship between individuals, organisations and society is consequently viewed as a ‘social contract’ (Ramanathan 1976; Deegan 2002; Williams 1999). The theories also emphasise ‘that the actors, whether they are individuals or organisations, in this system have the right to pursue their own goals and self-interests’ (Williams 1999).

The idea of CSR disclosure has been practiced since the 12<sup>th</sup> century (Guthrie and Parker, 1989 and Gray, 2000). Hackston and Milne (1996) define CSR disclosure as the provision of financial and non-financial information as stated in corporate annual reports or separate social reports. Gray et al. (1995) remarked that CSR disclosure embraces synonyms which include corporate, social and environment disclosure and even social audit.

The study by Holder-Webb et al. (2007) found that the most frequent CSR disclosure among U.S. firms is community relations, health and safety, and diversity/human resources. The emphasis on

community disclosure is consistent with political economy theories suggesting CSR undertaken in pursuit of building or maintaining legitimacy with the social environment.

Disclosure in the health and safety category is primarily aimed at customers, suggesting support for the use of these items to build or maintain consumer loyalty and market share. Other literature that supported this is Halcomb, Upchurch and Okumus (2007), research on top ten hotels companies as listed in Hotel magazines USA, reveal that 80 percent of the hotel companies analyzed reported socially responsible activities relating to some form of charitable donations (community involvement).

Study by Imam (2000), found that from 40 listed companies in Bangladesh (listed in Dhaka Stock Exchange) for 1996-97, all sample companies made some form of human resource disclosure. A total of 25 per cent of the sample companies made community and 22.5 per cent environmental disclosure. Only 10 per cent of companies provided consumer related disclosure. So the listed companies in Bangladesh place greater emphasis on human resource disclosure and still provide relatively low-level disclosure on environmental impact and consumer issues.

Imam (2000) study is also supported by other literature by Belal (2001) which confirmed that from 30 listed companies in Bangladesh, 29 companies disclosed human resource disclosure followed by ethical and other disclosure. Qu (2007) also found similar result on his research for CSR disclosure in China. The study was done for 120 Chinese listed companies using 2003 annual reports.

Qu (2006) found information relating to stakeholder interest and employees issues is found more frequently disclosed by Chinese listed companies. This finding is similar to the finding of Gul et al. (1984). The study of Australian companies found that 36 per cent of social disclosure is related to human resources, 32 per cent is related to community involvement and 10 per cent is related to environment. In UAE, Katsioloudes (2007) found that from 403 companies; a majority of disclosure is related to environment, community affairs and consumer protection.

Roberts' (1991) survey showed that 30 per cent of companies disclosed an environmental protection statement, 28 per cent provided process information, 39 per cent provided product information, 15 per cent commented on energy usage, and 24 per cent provided health and safety information.

Recent study by Mirfazli (2008), for 16 companies in Indonesia also has same result where companies disclosed labour category (51.60%), consumer (19.40%), society (14.7%) and followed by environment (14.3%). Rizk, Dixon and Woodhead (2008) had a totally contrasting result where employee related disclosure rank number one, followed by customer, environment and last, community relations.

### **Core areas of CSR disclosure**

These seven core areas will be used for this study and the seven core areas are:

| <b>Core areas</b>   | <b>short descriptions</b>   |
|---------------------|---|
| A. Human rights     | Supporting internationally proclaimed human rights                  |
| B. Employee welfare | Implementing good employment practices for the benefit of employees |

|                               |   |
|-------------------------------|---|
| C. Customer service           | Meeting customer needs by efficiently supplying goods and services through exceptional customer service   |
| D. Supplier partnership       | Working with business partners and suppliers to adopt socially responsible practices  |
| F. Environment protection     | Protecting the environment by minimising the environmental impact of business operations, products and services   |
| G. Community development      | Participating or leading in community development programmes and providing selected universal services to under-served or under-developed markets and communities |
| H. Ethical business behaviour | Promoting good business practices and fair competition, including working against corruption.   |

## **RESEARCH METHODOLOGY**

### **Selection of sample**

There are many types of financial institutions that operate in Malaysia either local or foreign owned. There are commercial banks, Islamic banks, investment banks and other financial institutions. This study only focuses on local commercial banks since it has similar legal, act and statutory that needs compliance with. Secondly commercial banks are more consistent in terms of organizational structure compared to Islamic and investment, which are more likely exposed to absorption, merger and acquisition.

The sample of this study comprised all eight local commercial banks as at 31 December 2007 (<http://www.bnm.gov.my>). The banks are:

- A. Affin Bank Berhad
- B. Alliance Bank Malaysia Berhad
- C. AmBank (M) Berhad
- D. CIMB Bank Berhad
- E. Hong Leong Bank Berhad
- F. Malayan Banking Berhad
- G. Public Bank Berhad
- H. RHB Bank Berhad

The sample only comprised local commercial banks and exclude foreign commercial banks, all Islamic and investment banks either local or foreign. The sole venue of disclosures is the annual reports. However, this analysis was restricted to the annual reports from 2005-2007 in order to analyse whether the introduction of Silver Book by late 2006 has significant impact to local commercial banks CSR disclosures.

### **Measurement of core areas of CSR disclosure**

The purpose of this scoring sheet is to record CSR disclosure that are reported in the annual reports. Table 1 below shows the breakdown of disclosure scoring sheets.

**Table 1: Items in the disclosure-scoring sheet**

| No | Core areas                 | Number of variables | Percentage |
|----|----------------------------|---------------------|------------|
| A  | Human rights               | 6                   | 19.35      |
| B  | Employee welfare           | 4                   | 12.90      |
| C  | Customer service           | 6                   | 19.35      |
| D  | Supplier partnership       | 3                   | 9.68       |
| E  | Environmental protection   | 3                   | 9.68       |
| F  | Community involvement      | 5                   | 16.13      |
| G  | Ethical business behaviour | 4                   | 12.90      |
|    | Total                      | 31                  | 100.00     |

The computation for the total disclosure (TD) score for every company is calculated based on the following formula:

$$TD = \sum_{i=1}^m d_i$$

where  $d = 1$ , if the item  $d$  is disclosed

$d = 0$ , if the item  $d$  is not disclosed

$m =$  the number of items actually disclosed

$n =$  the number of items that company is expected to disclose

$$m = n$$

In this study, all the social items obtained from the annual reports, are considered equally important. Guthrie and Parker (1989) and Gray et al (1995), however, suggest that it is necessary to distinguish between mandatory and voluntary disclosure in CSR disclosure research. In Malaysian context, all CSR disclosure items are treated as voluntary (MACPA, 1998) (Hasnah et al. 2006). The second step is to measure the relative level of disclosure. Hence, an index ratio (the actual score disclosed by an individual company) has to be developed. The computation for an index ratio is as follows:

$$M = \sum_{i=1}^n d_i$$

where  $d =$  expected item of disclosure

$n =$  the number of items in which a company is expected to disclose

The maximum score (M) that a firm earns may vary. The score for every company will range from zero to one. If the company does not disclose any of the items, the score will be zero. The maximum score for each company is 31. Finally, to measure the disclosure level for every company, a Total Disclosure Index (TDI) is computed by  $TD/M$ .

$$TDI = \frac{TD}{M}$$

## RESULTS AND DISCUSSION

The overall descriptive data is tabulated in Table 2: The data is organized based on year, followed by the value of mean, median, minimum, maximum and standard deviation. The mean is at 0.7298 in 2005 and it decreased to 0.6290 in 2006 and increased against 2006 in 2007 to 0.6613. This movement of mean makes an overall mean of 0.6734.

Table 2 indicates that, in year 2005 local commercial banks scored better, with mean of 0.7298 compared to year 2006 and 2007. There is no previous literature to support this finding.

**Table 2: Descriptive statistic for CSR disclosure score**

| Year                 | CSR disclosure score   |        |
|----------------------|------------------------|--------|
|                      | local commercial banks |        |
| 2005                 | Mean                   | 0.7298 |
|                      | Median                 | 0.7581 |
|                      | Minimum                | 0.3226 |
|                      | Maximum                | 0.9355 |
|                      | Standard deviation     | 0.1808 |
| 2006                 | Mean                   | 0.6290 |
|                      | Median                 | 0.7742 |
|                      | Minimum                | 0.0000 |
|                      | Maximum                | 0.9355 |
|                      | Standard deviation     | 0.3379 |
| 2007                 | Mean                   | 0.6613 |
|                      | Median                 | 0.8226 |
|                      | Minimum                | 0.0000 |
|                      | Maximum                | 0.9677 |
|                      | Standard deviation     | 0.3294 |
| <b>Overall Means</b> | <b>0.6734</b>          |        |

The possible reason why 2006 and 2007 score lower mean compared to 2005 is because there is inconsistent score by RHB Bank Berhad, which did not disclose anything on CSR disclosure for both years as shown in table 3.

**Table 3: Yearly score by local commercial banks**

| <b>Banks</b>                  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>Average</b> |
|-------------------------------|-------------|-------------|-------------|----------------|
| Public Bank Berhad            | 0.9355      | 0.9355      | 0.9677      | 0.9462         |
| AmBank (M) Berhad             | 0.8065      | 0.8387      | 0.8710      | 0.8387         |
| Malayan Banking Berhad        | 0.7742      | 0.7742      | 0.8387      | 0.7957         |
| CIMB Bank Berhad              | 0.7097      | 0.7742      | 0.8710      | 0.7850         |
| Hong Leong Bank Berhad        | 0.7097      | 0.7419      | 0.8065      | 0.7527         |
| Alliance Bank Malaysia Berhad | 0.7419      | 0.7742      | 0.3871      | 0.6344         |
| Affin Bank Berhad             | 0.3226      | 0.1935      | 0.5484      | 0.3548         |
| RHB Bank Berhad               | 0.8387      | 0.0000      | 0.0000      | 0.2796         |

**Companies ranking**

On the average, the local commercial banks assessed are far behind international best practices and need to increase their level of CSR disclosure and practices (Bursa Malaysia, 2007).

**Table 4: Average score ranked from highest to lowest 2005-2007**

| <b>Banks</b>                  | <b>Means</b> | <b>Ranking</b> |
|-------------------------------|--------------|----------------|
| Public Bank Berhad            | 0.9462       | 1              |
| AmBank (M) Berhad             | 0.8387       | 2              |
| Malayan Banking Berhad        | 0.7957       | 3              |
| CIMB Bank Berhad              | 0.7850       | 4              |
| Hong Leong Bank Berhad        | 0.7527       | 5              |
| Alliance Bank Malaysia Berhad | 0.6344       | 6              |
| Affin Bank Berhad             | 0.3548       | 7              |
| RHB Bank Berhad               | 0.2796       | 8              |

**Table 5: Ranking from highest to lowest from 2005-2007**

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| Banks                         | RANKING |      |      |
|-------------------------------|---------|------|------|
|                               | 2005    | 2006 | 2007 |
| Public Bank Berhad            | 1       | 1    | 1    |
| RHB Bank Berhad               | 2       | 8    | 8    |
| AmBank (M) Berhad             | 3       | 2    | 2    |
| Malayan Banking Berhad        | 4       | 5    | 4    |
| Alliance Bank Malaysia Berhad | 5       | 3    | 7    |
| CIMB Bank Berhad              | 6       | 4    | 3    |
| Hong Leong Bank Berhad        | 7       | 6    | 5    |
| Affin Bank Berhad             | 8       | 7    | 6    |

### Normality test

This study used the Kolmogorov-Smirnov Test, with the reliability rate of 95 percent, and  $n = 8$  for all eight of local commercial banks. The test is performed on 4 sets of data: year 2005, year 2006, year 2007 and average for 2005-2007. Using MiniTab Software version 15, normal data distribution graph was obtained for all the 4 sets of data.

### Impact of Silver Book on CSR disclosure for eight local commercial banks

This analysis is to compare the CSR disclosure for two years, which are 2006 and 2007. The study is interested to know whether the introduction of silver book has increased the awareness to local commercial banks disclosure. Table 6 below shows the summary of scores by GLCs and non GLCs for the year 2006 and 2007.

**Table 6: Descriptive statistic for CSR disclosure score, 2006 and 2007**

| Year | CSR disclosure score   |        |
|------|------------------------|--------|
|      | local commercial banks |        |
| 2006 | Mean                   | 0.6290 |
|      | Median                 | 0.7742 |
|      | Minimum                | 0.0000 |
|      | Maximum                | 0.9355 |
|      | Standard deviation     | 0.3379 |
| 2007 | Mean                   | 0.6613 |
|      | Median                 | 0.8226 |
|      | Minimum                | 0.0000 |
|      | Maximum                | 0.9677 |
|      | Standard deviation     | 0.3294 |

The results show CSR disclosure of 2007 with minimum score of 0.0000, maximum score of 0.9677 and mean of 0.6613. While 2006 reported a minimum score of 0.0000 and maximum score of 0.90355 with mean of 0.6290.

The first hypothesis to be tested is:

**Ho1** : There is no difference in CSR disclosure after the introduction of Silver Book for local commercial banks.

**Ha1** : CSR disclosure has positive relationship with the introduction of Silver Book for local commercial banks.

Comparative hypothesis test of CSR disclosure, for the year 2007 and 2006 is conducted using *t*-test to compare two independent samples at the confidence level of 95 percent, with the determinations below:

- If p-value >0.05: Ho is accepted and Ha is rejected.
- If p-value <0.05: Ho is rejected and Ha is accepted.

The test result is shown in table 4.5:

**Table 7: *t*-test result (core areas) with rate of faith 95% and df = 13**

|             | Mean   | SD     | t-value | p-value | Decision    |
|-------------|--------|--------|---------|---------|-------------|
| Banks, 2007 | 0.6613 | 0.3294 | 0.19    | 0.849   | HO Accepted |
| Banks, 2006 | 0.6290 | 0.3379 |         |         | Ha Rejected |

Based on table 7, p-value of 0.849 > 0.05, therefore Ho1 is not rejected, so it can be concluded that there is no significant difference in CSR disclosure for local commercial banks after the introduction of Silver Book. The main reason for this conclusion is that the local commercial have been doing the CSR disclosure even before the introduction of Silver Book. Therefore the introduction of Silver Book has a very minimal impact on the enforcement of CSR disclosure for local commercial banks.

### Core areas of CSR disclosure

The analysis is to examine whether the eight local commercial banks disclose same core areas on CSR disclosure. The second hypothesis to be tested is:

**Ho2** : All eight local commercial banks have similar of priority of core areas in the CSR disclosure.

**Ha2** : All eight local commercial banks have different of priority of core areas in the CSR disclosure.

Below is the summary of scores for three years (2005-2007). It is shown in table 8.

**Table 8: Scores core areas in the CSR disclosure**

| Core Areas       | Average | Rank |
|------------------|---------|------|
| Human Rights     | 0.5069  | 6    |
| Employee Welfare | 0.4792  | 7    |
| Customer Service | 0.8472  | 2    |

|                            |        |   |
|----------------------------|--------|---|
| Supplier Partnership       | 0.5972 | 5 |
| Environmental Protection   | 0.6528 | 4 |
| Community Involvement      | 0.8683 | 1 |
| Ethical Business Behaviour | 0.6771 | 3 |

The following data analysis is concerned in explaining the priorities given local commercial banks. The data analysis is presented in tables 9 - 16. Table 9 showed the overall ranking for core areas.

In general, the majority of disclosure for local commercial banks came under this core area. Average score is 0.8683. This core area disclosed highly because the companies have the intention to show to all the stakeholders that they are accountable to the public and care about them. This core area covers five variables. They are (1) Donations to community groups and charitable bodies, (2) Sponsoring public health, sporting and recreational projects, (3) Funding scholarship programs or activities, (4) Sponsoring national pride government sponsored project campaigns, and (5) Sponsoring community programmes and activities.

Customer service is the second most disclosed by local commercial banks. This finding is contrary to the finding of Che Zurina et al. (2003) where customer service / product was the last category disclosed from other five categories for 100 PLCs during period of 1995-1999. Che Zurina et al. (2003), stated “product reflects the concerns of a company for generating and maintaining customer satisfaction regarding the product. The level of disclosure for product was not satisfying” and her finding also indicated that the consumer industry showed a declining trend in product disclosure. This finding was aligned with Milton Friedman’s (1962) thesis that the social responsibility of businesses is confined to maximizing profits for shareholder or that “the business of business is business”.

**Table 9: Rank for Affin Bank Berhad**

| CORE AREAS                | SCORES | RANK |
|---------------------------|--------|------|
| Community involvement     | 0.7333 | 1    |
| Customer service          | 0.6111 | 2    |
| Ethical business behavior | 0.4167 | 3    |
| Employee welfare          | 0.2500 | 4    |
| Human rights              | 0.1111 | 5    |
| Environmental protection  | 0.1111 | 6    |
| Supplier partnership      | 0.0000 | 7    |

**Table 10: Rank for Alliance Bank Malaysia Berhad**

| CORE AREAS                | SCORES | RANK |
|---------------------------|--------|------|
| Customer service          | 1.0000 | 1    |
| Community involvement     | 0.9333 | 2    |
| Ethical business behavior | 0.7500 | 3    |
| Employee welfare          | 0.5833 | 4    |

|                          |        |   |
|--------------------------|--------|---|
| Supplier partnership     | 0.4445 | 5 |
| Human rights             | 0.3889 | 6 |
| Environmental protection | 0.0000 | 7 |

**Table 11: Rank for AmBank (M) Berhad**

| <b>CORE AREAS</b>         | <b>SCORES</b> | <b>RANK</b> |
|---------------------------|---------------|-------------|
| Customer service          | 1.0000        | 1           |
| Community involvement     | 1.0000        | 2           |
| Environmental protection  | 1.0000        | 3           |
| Supplier partnership      | 1.0000        | 4           |
| Ethical business behavior | 1.0000        | 5           |
| Employee welfare          | 0.5000        | 6           |
| Human rights              | 0.5000        | 7           |

**Table 12: Rank for CIMB Bank Berhad**

| <b>CORE AREAS</b>         | <b>SCORES</b> | <b>RANK</b> |
|---------------------------|---------------|-------------|
| Customer service          | 1.0000        | 1           |
| Community involvement     | 1.0000        | 2           |
| Human rights              | 0.8333        | 3           |
| Environmental protection  | 0.7778        | 4           |
| Employee welfare          | 0.6667        | 5           |
| Ethical business behavior | 0.5000        | 6           |
| Supplier partnership      | 0.4444        | 7           |

**Table 13: Rank for Hong Leong Bank Berhad**

| <b>CORE AREAS</b>         | <b>SCORES</b> | <b>RANK</b> |
|---------------------------|---------------|-------------|
| Community involvement     | 1.0000        | 1           |
| Environmental protection  | 1.0000        | 2           |
| Supplier partnership      | 1.0000        | 3           |
| Customer service          | 0.8333        | 4           |
| Ethical business behavior | 0.7500        | 5           |
| Employee welfare          | 0.5000        | 6           |
| Human rights              | 0.3889        | 7           |

**Table 14: Rank for Malayan Banking Berhad**

| <b>CORE AREAS</b>         | <b>SCORES</b> | <b>RANK</b> |
|---------------------------|---------------|-------------|
| Customer service          | 1.0000        | 1           |
| Community involvement     | 1.0000        | 2           |
| Environmental protection  | 1.0000        | 3           |
| Ethical business behavior | 0.7500        | 4           |
| Supplier partnership      | 0.6667        | 5           |
| Human rights              | 0.6111        | 6           |

|                  |        |   |
|------------------|--------|---|
| Employee welfare | 0.5000 | 7 |
|------------------|--------|---|

**Table 15: Rank for Public Bank Berhad**

| CORE AREAS                | SCORES | RANK |
|---------------------------|--------|------|
| Customer service          | 1.0000 | 1    |
| Community involvement     | 1.0000 | 2    |
| Environmental protection  | 1.0000 | 3    |
| Supplier partnership      | 1.0000 | 4    |
| Ethical business behavior | 1.0000 | 5    |
| Human rights              | 1.0000 | 6    |
| Employee welfare          | 0.5833 | 7    |

**Table 16: Rank for RHB Bank Berhad**

| CORE AREAS                | SCORES | RANK |
|---------------------------|--------|------|
| Customer service          | 0.3333 | 1    |
| Environmental protection  | 0.3333 | 2    |
| Community involvement     | 0.3333 | 3    |
| Employee welfare          | 0.2500 | 4    |
| Ethical business behavior | 0.2500 | 5    |
| Human rights              | 0.2222 | 6    |
| Supplier partnership      | 0.2222 | 7    |

**Table 17: Summary of core areas ranking by banks**

| CORE AREAS                | BANKS     |              |            |          |         |         |         |         |
|---------------------------|-----------|--------------|------------|----------|---------|---------|---------|---------|
|                           | AFFI<br>N | ALLIAN<br>CE | AMBAN<br>K | CIM<br>B | HL<br>B | MB<br>B | PB<br>B | RH<br>B |
| Community involvement     | 1         | 2            | 2          | 2        | 1       | 2       | 2       | 3       |
| Customer service          | 2         | 1            | 1          | 1        | 4       | 1       | 1       | 1       |
| Ethical business behavior | 3         | 3            | 5          | 6        | 5       | 4       | 5       | 5       |
| Employee welfare          | 4         | 4            | 6          | 5        | 6       | 7       | 6       | 4       |
| Human rights              | 5         | 6            | 7          | 3        | 7       | 6       | 7       | 6       |
| Environmental protection  | 6         | 7            | 3          | 4        | 2       | 3       | 3       | 2       |
| Supplier partnership      | 7         | 5            | 4          | 7        | 3       | 5       | 4       | 7       |

**Table 18: Spearman Rank Correlation calculation**

| Core areas           | Total<br>average | Banks | di              | (di) <sup>2</sup> |
|----------------------|------------------|-------|-----------------|-------------------|
|                      | (xi)             | (yi)  | di = xi<br>- yi |                   |
| Human rights         | 6                | 5     | 1               | 1                 |
| Employee welfare     | 7                | 4     | 3               | 9                 |
| Customer service     | 2                | 2     | 0               | 0                 |
| Supplier partnership | 5                | 7     | -2              | 4                 |

|                           |   |   |    |   |
|---------------------------|---|---|----|---|
| Environmental protection  | 4 | 6 | -2 | 4 |
| Community involvement     | 1 | 1 | 0  | 0 |
| Ethical business behavior | 3 | 3 | 0  | 0 |
| Human rights              | 6 | 6 | 0  | 0 |
| Employee welfare          | 7 | 4 | 3  | 9 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 5 | 0  | 0 |
| Environmental protection  | 4 | 7 | -3 | 9 |
| Community involvement     | 1 | 2 | -1 | 1 |
| Ethical business behavior | 3 | 3 | 0  | 0 |
| Human rights              | 6 | 7 | -1 | 1 |
| Employee welfare          | 7 | 6 | 1  | 1 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 4 | 1  | 1 |
| Environmental protection  | 4 | 3 | 1  | 1 |
| Community involvement     | 1 | 2 | -1 | 1 |
| Ethical business behavior | 3 | 5 | -2 | 4 |
| Human rights              | 6 | 3 | 3  | 9 |
| Employee welfare          | 7 | 5 | 2  | 4 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 7 | -2 | 4 |
| Environmental protection  | 4 | 4 | 0  | 0 |
| Community involvement     | 1 | 2 | -1 | 1 |
| Ethical business behavior | 3 | 6 | -3 | 9 |
| Human rights              | 6 | 7 | -1 | 1 |
| Employee welfare          | 7 | 6 | 1  | 1 |
| Customer service          | 2 | 4 | -2 | 4 |
| Supplier partnership      | 5 | 3 | 2  | 4 |
| Environmental protection  | 4 | 2 | 2  | 4 |
| Community involvement     | 1 | 1 | 0  | 0 |
| Ethical business behavior | 3 | 5 | -2 | 4 |
| Human rights              | 6 | 6 | 0  | 0 |
| Employee welfare          | 7 | 7 | 0  | 0 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 5 | 0  | 0 |
| Environmental protection  | 4 | 3 | 1  | 1 |
| Community involvement     | 1 | 2 | -1 | 1 |
| Ethical business behavior | 3 | 4 | -1 | 1 |
| Human rights              | 6 | 6 | 0  | 0 |
| Employee welfare          | 7 | 7 | 0  | 0 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 4 | 1  | 1 |
| Environmental protection  | 4 | 3 | 1  | 1 |
| Community involvement     | 1 | 2 | -1 | 1 |
| Ethical business behavior | 3 | 5 | -2 | 4 |
| Human rights              | 6 | 6 | 0  | 0 |
| Employee welfare          | 7 | 4 | 3  | 9 |
| Customer service          | 2 | 1 | 1  | 1 |
| Supplier partnership      | 5 | 7 | -2 | 4 |

|                           |   |   |    |     |
|---------------------------|---|---|----|-----|
| Environmental protection  | 4 | 2 | 2  | 4   |
| Community involvement     | 1 | 3 | -2 | 4   |
| Ethical business behavior | 3 | 5 | -2 | 4   |
|                           |   |   |    | 132 |

Refer to the critical value of Spearman's rank correlation coefficient table to identify the critical values of the test statistics for a two-tail test at the 0.10 level of significance. The table provides one-tail areas, so this study uses 0.05 column of the n=56 row. The critical values are -0.222 and +0.222. The calculated test statistic,  $r_s = 0.9955$ , fall into upper rejection region and able to reject the possibility that the population value for Spearman coefficient of rank correlation could be 0. Therefore  $H_0$  cannot be rejected, and the conclusion is all eight local commercial banks have similar preference of priority as to which core areas to be emphasized in their CSR disclosure.

***Table 19: Ranking CSR theme by Bursa Malaysia***

| Core Areas  | Rank |
|-------------|------|
| Workplace   | 1    |
| Marketplace | 2    |
| Community   | 3    |
| Environment | 4    |

(Source: Bursa Malaysia, 2007)

## CONCLUSION

The first objective of the study is to identify which banks disclosed the most CSR Disclosures. Public Bank Berhad was the number one, followed by AmBank (M) Berhad, Malayan Banking Berhad, CIMB Bank Berhad, Hong Leong Bank Berhad Alliance Bank Malaysia Berhad, Affin Bank Berhad and RHB Bank Berhad.

The second objective is to analyse whether the introduction of Silver Book by end 2006 has significant impact on the increased numbers of CSR disclosure for eight local commercial banks. The findings showed there is no significant difference in CSR disclosure for local commercial banks after the introduction of Silver Book

The third objective is to examine core areas of CSR disclosures for local commercial banks and to find out whether they have different priorities of core areas. The findings showed all eight local commercial banks have similar preference of priority as to which core areas to be emphasized in their CSR disclosure.

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- “Hare Or Snail? Challenges And Applicability Of Flexible Retention Work Structures During Economic Crises”**

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### **Abstract**

What will happen once the next economical crisis hits? How can firms adopt multi-faceted strategies targeting to balance decreasing orders with their commitment of a dedicated non-retrenchment policy should times go back to normal?

This work refers to case studies about the array of flexible work measures German HR-retention policies adhere to in order to temper the effects of a devastating, but probably temporarily economic crisis. Fancy ways are elaborated on how to minimise retrenchments, redundancies and premature release of contract workers. Especially two versatile methods shaping up which were proactively taken in consideration: Situationally adopted flexi-time with the implementation of

time accounts and various part-time models. Conclusions will be drawn, in how far strategies global manufacturers take can be benchmarked and adopted to a South-East Asian environment.

## **VI. TYPES OF ENTERPRISE: THE NETWORKED**

# ENTERPRISE/FEMALE ENTREPRENEURSHIP

## **ENTREPRENEURIAL LEARNING AND EMERGENCE OF DYNAMIC CAPABILITIES: A CASE OF WOMEN ENTREPRENEURS IN CREATIVE INDUSTRIES OF UK**

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**11th International Entrepreneurship Forum Kuala Lumpur, Malaysia, 4-6 September, 2012**

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### **Abstract**

**Objectives:** This main objective of this paper is to present an empirical exploration of the entrepreneurial learning process in relation to dynamic capabilities along with the brief overview of literature.

**Theoretical Background/Previous Practice:** This exploratory research contributes towards understanding the entrepreneurial learning process in relation to dynamic capabilities by employing an integrated social and experiential learning approach. The existing cognitive and social approaches to entrepreneurial learning appeared as “rivals” and “mutually exclusive”. These views overlook the complementarities of the two learning process in dynamic and real life contexts. Entrepreneurial learning is seen as a path towards emergence of dynamic capabilities. Consequently, the dynamic capabilities are explored at micro-level by taking individual entrepreneur as a source of dynamic capabilities, a deviation from previous approaches which tend to focus at an organisational level.

**Approach/Methods:** This paper is an empirical exploration of entrepreneurial learning in relation to dynamic capabilities. Qualitative Case study approach aided the exploration of entrepreneurial learning and focused on the work of women entrepreneurs who has started a venture and are managing their business in for three or more than three years. Data was generated by conducting in-depth interviews. Cross-case comparison coupled with grounded theory techniques were utilised for the purpose of analysis.

**Results/Insights:** The research finds that social and experiential process shapes the creative women entrepreneurs’ entrepreneurial learning content. Specifically, creative learning and functional learning were found to shape the content of learning which functions as a knowledge resource for creative women entrepreneurs. These knowledge resources were either reconfigured or new resources, integrated according to entrepreneur’s subjective interpretation of the situation in order to respond to the external stimuli that appeared in form of customers demand, rapidly changing lifestyles and increased competition. This lead to the emergence of dynamic capabilities which, in turn lead to enrichment of learning content and consequently meeting of the venture growth objectives.

**Implications:** The findings have specific implication for the better and critical understanding of entrepreneurial learning in relation to dynamic capabilities

**Keywords:** Entrepreneurial learning, female entrepreneurs, creative industry

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## **INTRODUCTION**

This exploratory study is fundamentally concerned with entrepreneurship, with women entrepreneurs as the main focus and, specifically, with how entrepreneurial actions are learned and developed by creative women entrepreneurs while managing their business. Creative women entrepreneurs refer to those women entrepreneurs who are involved in creative activities (Rae, 2011) and have created their ventures in one of the creative industries subsectors.

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For the last few decades, scholars have continued to stress the importance of entrepreneurship as one of the most dynamic forces shaping the economic landscapes of the countries (Reynolds et al., 2005). To understand the complex phenomena of this field, scholars have made much individual and collaborative effort. This resulted in diverse understating of entrepreneurs and the entrepreneurship process. Entrepreneurs are understood as a special creed of economic beings who by using their knowledge enable existence of organisations. According to Hindle (2010: 100) “entrepreneurship is the process of evaluating, committing to and achieving, under contextual constraints, the creation of new value from new knowledge for the benefit of defined stakeholders”. In this sense, knowledge becomes the integral component facilitating evaluation, commitment and management. This, in turn, suggests the entrepreneur as a central actor of entrepreneurial process who, by the virtue of his/her knowledge, initiates the process of evaluation, commitment and management. Moreover, it captures the elements of “newness” in knowledge and the value created thereby which implicitly reflects the importance of “learning something new” in such processes.

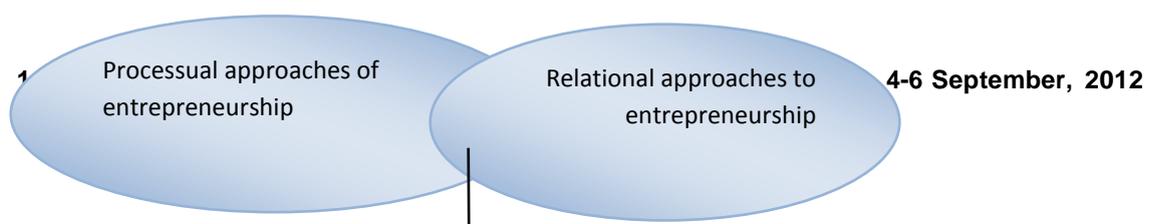
Various researchers have magnified the process of learning within the process of entrepreneurship (Corbet, 2005,) often conceptualized as entrepreneurial learning. Entrepreneurial learning is understood as learning to recognize and act upon opportunities and interacting socially with a wide range of actors to initiate, organize and manage ventures (Rae, 2009). This reflects the process of learning within entrepreneurial process occurring both at an individual level and within a social context via interaction with people and observing them closely. This makes entrepreneurial learning a highly contextual phenomenon (Cope, 2001; Rae, 2003, 2006,) and, hence, must not be considered as happening in a vacuum or occurring independently from contextual influences. Consideration of learning process in different contexts, and especially in a unique industry context, helps to generate an understanding and appreciation of the impact of the industry context on the learning and development of entrepreneurs. An exploration of process of learning within such a context can generate greater understanding of how people work in entrepreneurial ways within boundaries of a specific industry but also how entrepreneurial individuals assess and interpret the contexts and mould their learning accordingly. This research study takes into account business in the creative industries sector.

The creative industry sector is known for its uniqueness due to its rapidly changing environment (Rae, 2004). In such environments, entrepreneurs may have to rapidly upgrade their business according to changing situations which would require them to learn as rapidly as possible. In such a situation, speed and effectiveness of learning will matter a great deal for venture growth and survival (Rae, 2004). In other words, entrepreneurs may have to develop skills and capabilities to address such situations. These capabilities, potentially, can enable entrepreneurs to survive and develop capabilities to achieve a new environmental fitness in such high velocity environments. The literature suggests that the learning process and learning content (developed as a result) can result in the development of capabilities (Jones, Macpherson et al. 2011).

In this regard a new area of research can focus on making sense of learning within a dynamic context of the creative industries in relation to capabilities of entrepreneurs. Observing the entrepreneur as a centre of focus, the learning process in such a case could range from individual to collective. In this sense, individually existing knowledge, experience and proactivity, and close connection with the environment in terms of social interaction with a wide range of actors could play a crucial role in their learning. This study thus explores the underlying process of entrepreneurial learning in the creative industries in relation to women entrepreneurs. It also endeavours to explore the various facets of entrepreneurial learning to understand the nature of entrepreneurial learning in a creative industry and the emergence of specific capabilities as a result. Moreover, this research also explores that part of learning which is influenced by the contextual forces of the creative industry.

## 1) LEARNING AND ENTREPRENEURSHIP FROM A PROCESS-RELATIONAL VIEW

Entrepreneurial ventures are entered into through the discovery or creation of opportunities (Alvarez and Barney 2005) exploited by entrepreneurial individuals having distinct reasons/motivations and experiences before starting up a venture to produce new products or services (Shane and Venkataraman, 2000; 211). While starting up a venture, entrepreneurs are likely to have certain existing inclinations or ideas for offering a product or service and means for producing them, or a finalised marketable product to offer it to the market. These existing inclinations or ideas for products or any finalised product are largely based on the existing knowledge and skills that they have accumulated throughout their life. Their own biographies play a crucial role in selecting which product or service to offer. “Individuals possess different skill inventories during various stages of their career life cycles that impact their preparedness to become an entrepreneur” (Harvey and Evans, 1995:333). Individuals who intend to take-up an entrepreneurial career “approach the entrepreneurial process with a whole range of accumulated skills and abilities; abilities that define how 'prepared' they are for an entrepreneurial career” (Cope, 2001: 65).



|   |  |
|---|--|
| Female entrepreneur<br>(the entrepreneurial individual) | Career biography, reasons for joining entrepreneurship as a career, past experiences and experiential aspects of learning, level of learning brought to the venture, exploration and exploitation process in learning                                    |
| Female Entrepreneur<br>(Social interaction)             | Starting up a venture, discovery or creation of opportunities, learning within entrepreneurial career, role of relationships, building and managing relationships, sharing and exchange of information and learning with relationships, observing people |
| Entrepreneurial context in terms of creative industries | The creative industries market forces (such as consumer's demand, changing fashions and trends, increased competition and new entries, influence of external cultures etc) and female entrepreneur's responses to these market forces                    |

Figure 1: Processual, relational and process-relational approaches to study female entrepreneurial learning (adapted from Karataş-Özkan and Chell, 2010)

Thus, an entrepreneur's career biography in terms of her prior educational experiences, formal training taken up and employment experiences can also give an idea of whether she is prepared to take up an entrepreneurial career, what and why products or services are chosen to offer which lead to starting up a venture. Once the venture is created and it takes off, its further development,

expansion and growth takes place via constant\_recognition/creations and realizations of opportunities which is a valid indicator of the continuation of the process of entrepreneurship beyond the initial founding event (Cope and Wattas, 2000: 115).

The discovery or creation of opportunity, however, is neither solely individualistic nor independent of context. Entrepreneurship has emerged dynamically in social interaction between people which occurs in various ways such as through meetings, through reading what others have written, through the internet and so on (Steyaert and Hjorth, 2006). Opportunities are realized within a social context and, thus, entrepreneurial activities could be understood as context-dependent which are realized and constructed through social processes (Karataş-Özkan and Chell, 2010). Thus, entrepreneurs also work in a relational context. This provides an entrepreneur an opportunity not only to further her venture based on her own experiences and knowledge but also to actively participate in surrounding communities of people, which could involve sharing and exchange of relevant information. In addition, the social interactions hold multiple advantages for entrepreneurs in terms of learning and developing capabilities but which, in turn, will facilitate female entrepreneurs to meet venture growth objectives. The social interaction not only facilitates learning but also allows entrepreneurs to take on board the skills of other actors whenever required (Jones et al., 2011). In this way the entrepreneurs not only learn by having direct experience but also by active social interaction and observing other people around them.

Thus, the process-relational view of entrepreneurship allows conceptualizing the individuals' central position in entrepreneurship coupled with the crucial role of social interaction. It can also serve the aims of this study by relating the activities of an entrepreneur within the social context and by combining the economic dimension (particularly product/service innovation) within its social context (participation). This study accordingly takes an individual-focused approach which requires a conceptual framework that combines the socio-experiential approach towards learning with innovation and venture expansion from an individual female entrepreneur's perspective.

The past decade has witnessed significant development in terms of research and the understanding thereby generated regarding the nature and process of entrepreneurial learning. Yet this research area needs further understanding (Deakins and Freel 1998; Rae, 2005; Cope, 2005; Harrison & Leitch, 2005). The concept of entrepreneurial learning emerged at the confluence of entrepreneurship and organisational studies. However, entrepreneurship studies moves towards an entrepreneur as central actor and being the one who enables the very existence of ventures and organisation. According to Shaver and Scott (1991) *economic circumstances are important; social networks are important; entrepreneurial teams are important; marketing is important; finance is important; even public agency assistance is important. But none of these will, alone, create a new venture. For that we need a person, in whose mind all of the possibilities come together, who believes that innovation is possible, and who has the motivation to persist until the job is done'* (p.39).

Existing research on entrepreneurial learning generates understanding of how people acquire knowledge and enact new behaviours in the process of recognizing and acting on opportunities and

of organizing and managing ventures (Maples & Webster 1980; Rea & Carswell, 2000). Learning is a process of awareness, reflection, association and application that involves transforming experience and knowledge into functional learning outcomes (Rae 2006) which entrepreneurs bank and actively utilise in their ventures. Entrepreneurs actively transform their entrepreneurial experience into entrepreneurial knowledge (Politis, 2005), thus learning is an integral part of entrepreneurial process in which human and social aspects hold as much importance as economic factors (Rae, 2006). Thus entrepreneurial learning encompasses both the process and outcome. Table 1 summarises the work of prominent researchers who have emphasised the importance of entrepreneurial learning and defined the term:

**Table 1**

| <b>Author(s) &amp; year</b>                             | <b>Contribution</b>   |
|---|---|
| Schumpeter (1934)                                       | Imagination & innovation resulting from natural & social learning   |
| Kirzner (1973)  | Creative discovery learning generating alertness to opportunities   |
| Reuber & Fischer (1993)                                 | Value of recent concrete experience related to context of use   |
| Young & Sexton (1997)                                   | Acquisition storage & use of entrepreneurial knowledge as expert resource   |
| Deakins & Freel (1998)                                  | Five key learning abilities within the small firm   |
| Minitti & Bygrave (2001)                                | Algorithmic model of entrepreneurial decision-making based on experience  |
| Rae & Carswell (2001)                                   | Confidence & self-belief connect learning resources with achievement  |
| Gibb (2001) Hartshorn (2002)                            | 'Lifeworld' of the small firm as a dynamic entrepreneurial learning environment   |
| Mitchell et al.; Shepherd & Krueger (2002)              | Rational models of knowledge structures, cognition & decision making applied to stages of the entrepreneurial process   |
| Cope (2005)   | Dynamic learning process with phases, processes & characteristics   |
| Politis (2005)  | Dynamic framework of career, transformation & knowledge, distinguishing learning process & knowledge outcomes           |
| Dutta & Crossan; Lumpkin & Lichtenstein; Corbett (2005) | Connections between organisational learning, opportunity recognition, creativity and entrepreneurial learning processes |

|                      |  |
|----------------------|--|
| Rae (2006)           | Entrepreneurial learning as a process of personal emergence, contextual learning and negotiate enterprise  |
| Cope and Down (2010) | Social process of the learning by which entrepreneurs cognitively acquire and transform knowledge via participation and practice in communities. |

Sources: Adapted and modified from Rae, 2006

The existing understanding on entrepreneurial learning is dominated by cognitive approach. Cognitive theorist concentrates on the individual acquisition and comprehension of knowledge (MiniTi & Bygrave, 2001 cited in Rae, 2006). Not to overlook the tremendous contributions from cognitive theorists, however, cognitive approaches are mostly based on entitative stance, looking at learning as happening in vacuum and isolation from external factors, leaving behind the role of personal experience and social interaction. However, entrepreneurship does not occur in vacuum (Krueger, 1994). The entrepreneur's continuously respond to the environment in which they operate (Gartner 1985) by actively utilise their experiences (Politis, 2005) in combination with the social interaction (Rae, 2006; Karataş-Özkan and Chell, 2010). Thus learning that occurs is not context independent. Rather, it occurs in specific domain. Thus, there is a need to study entrepreneurial learning within specific contexts to reveal its situated nature. This study takes creative industry as a specific context for exploring entrepreneurial learning.

Rae (2003, 2004, 2006) presented a somewhat different view of the entrepreneurial learning as triadic model of personal and social emergence of the entrepreneur, contextual and situated nature of learning and the negotiated emergence of enterprise within a social context. An entrepreneur is inextricably connected to their various relationships, both formal and informal. These relationships not only contribute towards the personal emergence as an entrepreneur but also the venture emerges through the process of negotiation. Rae (2003, 2006) directed the attention of entrepreneurial learning theorists towards the situated and contextual dimensions of learning.

Researchers have asserted the social dynamic inherent within entrepreneurial learning (Deakins et al., 2000; Hamilton, 2004; Rae, 2002; Taylor and Thorpe, 2000, Karas-Ozkan, 2011). Particular emphasis has been placed on entrepreneurial networks as "learning systems" (Mäkinen, 2002). Hines and Thorpe (1995) argue that a complex network of "learning agents" exists and entrepreneurs learn within the wider context of these personal and business relationships. Thus, the accumulation of new knowledge is acquired from both experiential and vicarious learning (Holcomb, et al. , 2009).

This stream of research mainly understands entrepreneurs as individuals who work in close interaction with a wide range of actors and thus learning occurs in a social context. In this way, this latter stream of literature reflects the metaphor of "participation". Entrepreneurs participate and interact with a wide range of actors and thus learning continually shapes and develops in a social context.

From the above discussion, it is clear that there are individual and social approaches to entrepreneurial learning. The earlier approaches reside in the cognitive sciences but adopt pure cognitive or experiential approaches and hence represent the "acquisition" approach. The recent turn is towards the social approach and emphasises the participation in communities and with people as an essential element underpinning entrepreneurial learning. Also, researchers are called

to see the social dimensions of learning in an entrepreneurship context (Cope, 2005). Entrepreneurial learning is understood as the learning while recognising and acting upon opportunities and interacting socially to initiate, organise and manage ventures (Rae, 2009). This leads to the conclusion that entrepreneurs learn from their experience; however, experience is not independent of their social worlds. Entrepreneurs also are likely to derive necessary learning from social interactions. "Learning therefore can be viewed as a responsive, rhetorical and argumentative process that has its origins in relationships with others. As such, learning cannot be located entirely within the individual. Argument and debate with oneself (or selves) and in collaboration with others is the basis of learning" (Holman, Pavlica, and Thorpe, 1997: 143). This refers to the participation approach towards learning. However, it is concluded that both perspectives are needed and they must not be viewed simply as rivals, rather they should be seen as complementing each other (Sfard, 1998). This suggests studying entrepreneurial learning from a combined and interrelated micro-individual and meso-relation perspective (Karatas-Ozkan, 2011).

To conclude, viewing learning within an entrepreneurship process from an experiential and social lens holds the promise to generate understandings of how personal experience and prior knowledge is combined with social interactions to derive new knowledge and learning which is then utilised for managing ventures. What and how entrepreneurs learn from social interactions is an area which needs further enquiry (Cope, 2005). This suggests that future research on the subject matter of entrepreneurial learning should view individual experiential learning and social perspectives. The current research is based on the experiential and social approaches to learning.

## **The experiential dimension of learning within entrepreneurship**

Entrepreneurial learning has been understood as an experiential learning process where the personal experience of an entrepreneur is transformed into knowledge, (Politis, 2005). Based on this knowledge further experiences and learning occurs. Experiential learning can be understood as "the process whereby knowledge is created through the transformation of experience" (Kolb, 1984: 41). Extending this entrepreneurial context, it can be argued that entrepreneurs, once they start their ventures, often confront concrete experiences (Gartner, 1989; Johannisson, 1992). This implies that entrepreneurs encounter a variety of experiences, especially if they choose to create their ventures in dynamic and high velocity environments like the creative industries. Opportunity recognition leading to venture creation predominantly depends upon the entrepreneurs' existing knowledge (Shane, 2003; Baron, 2006; Alvarez and Busenitz, 2001). This is in line with the argument of the experiential learning stance which asserts that the learner's background is considered as central to learning from experiences. Experiences are considered as building upon past experiences of

learners (Boud et al, 1993). According to Boud et al.'s (1993:8) standpoint "learning always relates, in one way or another, to what has gone before. There is never a clean slate on which to begin; unless new ideas and new experiences link to previous experiences, they exist as abstraction, isolated and without meaning. The effect of experience influences all learning. What we are attracted towards, what we avoid and how we go about the task, is dependent on how we have responded in the past. Earlier experiences which had positive or negative affect stimulate or suppress new learning. They encourage us to take risks and enter into new territory for exploration or, alternatively, they may inhibit our range of operation or ability to respond to opportunities". Thus, the experiential dimension of entrepreneurial learning could entail creation of the capabilities and adoption of new behaviours learned through the active interpretation of experience in an entrepreneurial context "as opposed to the internalization or absorption of pre-created knowledge" (Burgoyne, 1995).

Extending this standpoint to an entrepreneurial context implies, on one hand, that entrepreneurs' pre-venture experiences and career biography would play a crucial role in making decisions for exploiting opportunities and starting up a venture and, on the other hand, asserts that exploration and exploitation are integral processes of experiential learning within the entrepreneurship domain. Holmqvist (2004) offers an exploration and exploitation process as integral in learning from experiences based on March's idea. While making decisions, entrepreneurs may choose to go for exploitation by replicating previously successful actions. Exploitation generates further reliability in experience and can give rise to stable behaviour in relation to certain actions (Holmqvist, 2004). The second option is exploration and entrepreneurs may choose to try something new which was not done previously. There is always trade off between exploitation and exploration (March, 1991) depending upon the situation confronted by the entrepreneurs. The exploitation strategy may involve making the same use of existing knowledge or making new use of existing knowledge, thus, generating new capabilities. On the other hand, exploration can involve trying something that has not been done before. In other words, exploration can involve exploring new possibilities including issues such as variation, experimentation, discovery, and innovation which generates new learning (Politis, 2005)

### **The social dimension of learning within entrepreneurship**

The concept of social interaction is considered as closely linked with the entrepreneurial process (Karatas-ozkan, 2011). Entrepreneurial process emerges dynamically in social interaction between different people (Steyaert and Hjorth, 2006). Even if an entrepreneur has essentially performed entrepreneurially "singlehandedly", interaction with the social context has still taken place (through upbringing, local culture, inspiration, idea generation, support, resistance and so forth) (ibid). Thus social interaction is closely linked to the entrepreneurial process. This social interaction holds much potential for supporting the entrepreneurial process. One of the most important uses of this interaction is that of exchange and sharing of relevant information and knowledge. Working and interacting with a group of people also provides an opportunity to communicate and observe their ways of doing and adopting what is perceived as useful for venture. In this way "the working of relationships in the situation of practice determines what is understood by learning (Devins and Gold, 2002: 113). Thus, new ideas and their successful implementation (exploitation) and further suggestion for improving the existing venture depend upon participation and interacting with a wider range of actors.

Ravasi and Turati (2005:138) assert that “the development of entrepreneurial ideas requires contributions of a different nature from a range of actors, whose knowledge and skills are complementary to the entrepreneurs”. Typically, entrepreneurs possess a good knowledge of the market and the customers and, often, a certain degree of technical competence in his field. However, the actual realization of their ideas often requires not only financial resources, but also skills and competencies that must be obtained from industrial, commercial and research partners, consultants, designers, etc.

There are different forms of social interactions and the importance attached to it by the entrepreneur also varies according to the given context, hence they differ in their importance to the entrepreneurial process (Steyaert and Hjorth, 2006). It is recognised that the entrepreneurial process is a complex web of reciprocal interactions between culturally embedded actors closely connected to each other (Steyaert and Hjorth, 2006). Thus, entrepreneurs are not only learning from other actors around them but also are likely to facilitate their learning needs which, further, could lead to develop strong relationships. This also implies that they are influenced by and are influencing their social contexts in different ways.

### Adopting a social - experiential learning stance

Figure 4.2 illustrates the social learning cycle including the experiential element showing the mutual relationship and interconnectedness of the process of social and experiential learning. It depicts the experiences occurring in the social context, by interacting with people having a vicarious experience element in it, which is facilitated by the opportunity to observe people around. This is conceptualized by the metaphor of “participation”; a concept of learning by Lave and Wenger (1991) and Lave (2009).

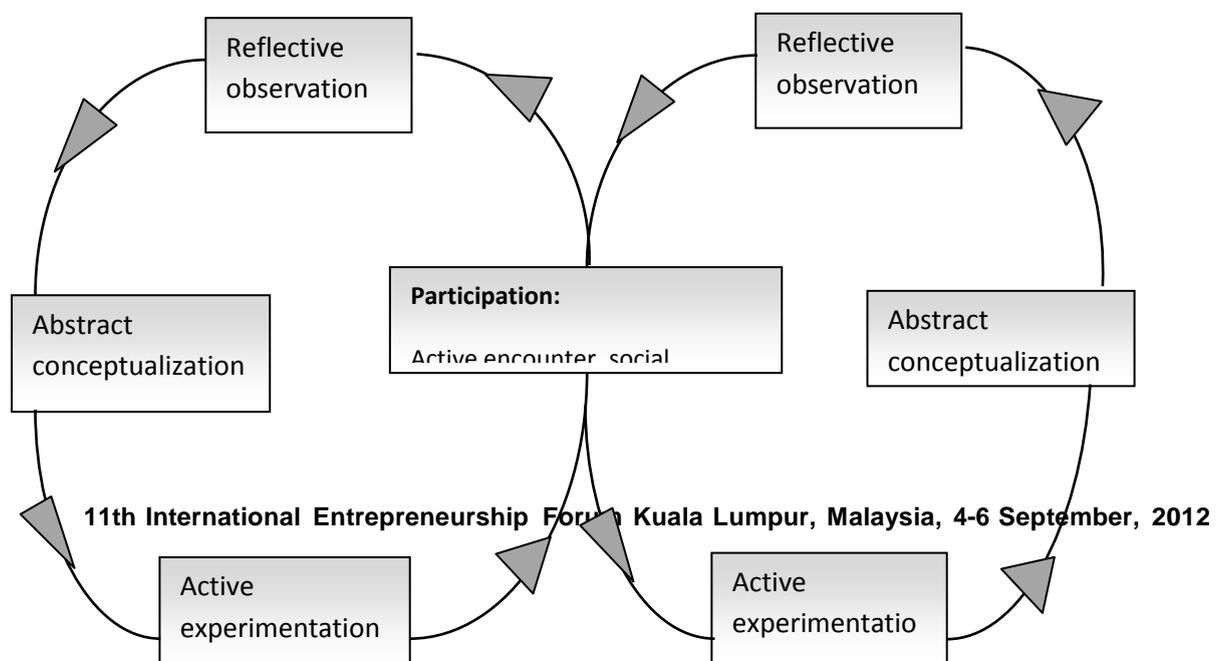


Figure 2: The Social-experiential learning cycle (Source: Adapted from Burgoyne, 1995)

In this sense, the learning is individual as well as collective depicting an iterative process of learning. Experiences are shared which could lead to individual as well as shared reflections. Entrepreneurial learning could be conceptualized through such interrelated processes of learning. Entrepreneurs are known to learn new behaviours via trial and error and experimentation (Sosna et al., 2010) which give rise to new encounters and new concrete experiences and generating new learning via a process of reflection and conceptualization. However, entrepreneurs' experiences are not independent of their social context (Karataş-Özkan and Chell, 2010). Entrepreneurs participate and work in collaboration with a range of stakeholders (Zafirovski, 1999) which allows sharing and exchange of ideas and working towards mutual benefits. In this way the entrepreneurial learning process takes place from "individual learning from concrete experience to collective learning in social contexts" (Burgoyne, 1995: 63). Thorpe et al. (2006: 235) emphasizes these individual and collective dimensions of entrepreneurial learning by asserting that "the practice of entrepreneurial learning is integral to understanding entrepreneurial activity as a whole and this learning, being socially embedded, means that the entrepreneurial recognition and pursuit of opportunities is a relational awareness of, and creation of, localized possibilities through the social enactment of cognitions

## **2) THE SOCIAL-EXPERIENTIAL LEARNING WITH IN ENTREPRENEURIAL PROCESS AND EMERGENCE OF CAPABILITIES**

The entrepreneur has been recognised as important to economic development and a rare breed of economically rational individual by Schumpeter (1934) who asserts that 'the carrying out of new combinations is a special function, and the privilege of a type of people who are less numerous than all those who have the "objective" possibility of doing it' (81). Entrepreneurial knowledge is inextricably linked to the recognition and exploitation of opportunities both from a learning view (e.g. Politis, 2005) and from an alertness view (e.g. Kirzner, 1997). Entrepreneurs are viewed to possess a particular set of capabilities and skills which act as a bridge to perceived opportunities and to capitalise over them (Penrose, 1959 cited in Macpherson and Holt, 2007) is often conceptualised as entrepreneurial capabilities. Entrepreneurs utilise various tangible and intangible resources, including knowledge as a vital resource, to actualise opportunities. However, entrepreneurs cannot remain on the same level of knowledge over the venture life cycle, rather they have to continually learn if they have to succeed (Corbet, 2005). Also, entrepreneurs are required to upgrade their resource base, integrate new resources and develop new use of existing resources to attain venture growth objectives (Alvarez and Busenitz 2001; Zahra, Sapienza et al. 2006)

especially in dynamic and high velocity environments. This integration of new resources and development of new use of existing resources is often conceptualised as dynamic capabilities (Eisenhardt and Martin, 2000). We tend to move the discussion of entrepreneurial learning towards the emergence of dynamic capabilities.

Entrepreneurial learning is often described as a continuous process that facilitates the development of necessary knowledge for being effective in starting up and managing new ventures (Politis, 2005). Entrepreneurial learning relates to recognizing and exploiting opportunities, organizing and managing ventures (Rea, 2003). In a nutshell, “entrepreneurial learning” refers to ‘how people acquire knowledge and enact new behaviours in the process of recognizing and acting on opportunities and of organizing and managing ventures to meet growth objectives’ (Maples & Webster, 1980; Rea & Carswell, 2000). Through entrepreneurial learning entrepreneurs improve their personal effectiveness and their entrepreneurial practices (Rae, 2000; Corbetta, Huse and Ravasi, 2004).

From opportunity recognition to actual creation of organization, the entrepreneur is involved in a variety of learning cycles. Gartner (1988) asserts that “the individual who creates the organization as the entrepreneur takes on other roles at each stage—innovator, manager, small business owner, division vice president, etc.” (p. 26). Each role requires unique sets of skills and attitudes whose possession and application translate into a unique learning exercise. These learning cycles, in turn, result in building up capabilities that are necessary to pursue further entrepreneurial opportunities (George, 2005; King & Tucci, 2002; Salvato, 2004). Also, these activities and learning generated thereby develops what Zahra et al. (2006) call substantive capabilities. These capabilities enable women entrepreneurs to carry on their routines and day to day operations of their ventures with existing sets of resources including both tangible and intangible resources (ibid). However, in dynamic environments such as the creative industries, entrepreneurs are often confronted with tough competitors and rapidly changing customer demand (Caves, 2000) coupled with learning and information asymmetries (Potts, 2008). In such cases, entrepreneurs may require new knowledge and resources or make new use of existing resources to meet the changing situations. “The skills and competencies that these firms have must to be upgraded and new dynamic capabilities are built to ensure successful adaptation for growth” (Zahra et al., 2006: 4). Integration of new resources also generates new learning for entrepreneurs and gradually shapes their learning and builds their capabilities. In other words, learning to meet the changing situations and their venture growth objectives shapes their dynamic capabilities involving integration of new and reconfiguration of existing resources.

The existing literature offers limited understanding of role of entrepreneurial learning in emergence of dynamic capabilities. This research thus aims at exploration of role of learning in emergence of dynamic capabilities at micro level.

### **3) METHODOLOGY MATTERS**

**11th International Entrepreneurship Forum Kuala Lumpur, Malaysia, 4-6 September, 2012**

Given the focus of this research on developing an understanding of entrepreneurial learning with an industry specific stance, the study takes an interpretive **stance**. Interpretive stance assumes that social world is interpreted, understood, experienced, produced and/or constituted with the underlying assumption and that the world is complex and multilayered and textured (Mason, 2002). Interpretive approach seeks to interpret events and phenomena in terms of how the people concerned perceive and understand their own experience (Patton, 2002). The reality in this case is understood to be subjective and it is function of interpretation (Burrell & Morgan, 1979).

‘It is our opinion that many substantive issues in entrepreneurship are rarely addressed, and that many of the important questions in entrepreneurship can only be asked through qualitative methods and approaches’ (Gartner and Birley, 2002; p387).

To meet the purpose of study, qualitative research method was adopted which also is inline with the recent acknowledgment with in literature on methodological choices for researching entrepreneurship that qualitative inquiry should not be the ‘special case’ within the entrepreneurship domain (Gartner and Birley, 2002). This research paper is based on the analysis of the qualitative data set. The main purpose of the research was to explore how female entrepreneurs learn and the respective role of their learning during their entrepreneurial journey in their ventures. The existing literature on entrepreneurial learning and female entrepreneur does not offer sound frameworks thus not offering scope for quantitative methods. One of the defining characteristics of the qualitative method is that it is firmly located in the 'context of discovery' rather than the 'context of justification' (Guba and Lincoln, 1994; Schwandt, 1994). Thus, qualitative methods are more inline with purpose of this research. As, in contrast to more quantitative approaches, qualitative research is inherently inductive rather than deductive (Deshpande, 1983) consequently, the research is based on inductive rather than deductive logic of enquiry.

Table 2: Respondents brief description

| Respondent | Name   | Type of business  | Background  | Transition into entrepreneurial career                      |
|------------|--------|---|---|---|
| A          | Henna  | Consultant by design, global arts projects                      | Worked as singer, worked as project manager for large organisations, worked as trainer to dyslexic people | Childbirth, better life for family                          |
| B          | Karon  | Music Consultancy, Business trainer, Life coach, music retailer | Worked as banker, financial advisor   | As a hobby with her husband                                 |
| C          | Bevina | Training consultancy, e-learning and training consultancy       | Employee as manager in various companies  | Wish to be one’s own boss, first venture failure experience |

|   |           |   |   |   |
|---|-----------|---|---|---|
| D | Ketherine | Image consultant, online cosmetic outlet, training and development fro executives, teams and female entrepreneurs | Multiple employment experiences as librarian        | Desire for change, Sudden interest developed into image consultancy |
| E | Jenitt    | Creative consultant, Card designer  | Employee as a creative consultant                   | Redundancy, desire to be one's own boss                             |
| F | Andreana  | Jewellery designer, Jewellery design trainer,   | Design business, garage business with brother       | Personal preference for jewellery designing                         |
| G | Denneis   | Cross cultural communication consultant, training, workshops and seminar with business executives                 | Worked in family business                           | Left family business, interest in cross cultural communication      |
| I | Lynne     | Event manager   | Designer, manager in post office                    | Desire for change, ex-designing business sold off                   |
| J | Emma      | Clothing and jewellery retail, saddler retail, Training and teaching horse ridding                                | Sports women (horse ridding) at international level | Age factors   |

Empirically, this paper draws on results of in-depth case studies of creative female entrepreneurs in Essex region. The qualitative case study research aided the exploration of entrepreneurial learning of female entrepreneurs. Data was collected by conducting in-depth interviews with female entrepreneurs by employing story telling techniques.

For selecting respondents, the study relied on multiple sampling techniques which include purposive, criterion and snowball sampling (Patton, 1990). Purposive sampling was used to identify female entrepreneurs for participation in this study based on the characteristics and criteria relevant for the research. For the criterion sampling, the female entrepreneurs profile for this study will include was based on following points:

- She independently or together with a partner started and established a venture, and is still in business or still running and managing her venture.
- She is a primary decision maker in her venture.
- She has been running her business for three or more years.

Open ended in-depth interview (Patton, 1990) was used as data gathering tool. A narrative approach is adopted for the interviews by inviting a story from the respondent and they were asked to share the story of their career. This was particularly useful to give and in-depth view of the unique experiences that they hold and the pre-venture career trajectory. However, to make sure all

the relevant question were covered, a topic guide was also utilised and was developed and modified after each interview in order to investigate the emerging themes. Thus, each interviewed revolved around (but was not confined to) the career story (before and after setting up a venture), factors that made them choose entrepreneurial career, how ideas were turned into a venture, steps taken for filled the perceived gap in their learning, any critical situation they had confronted during their entrepreneurial journey. All the interviews were conducted face-to-face and were audio recorded. An explicit permission of the respondent was sought prior to actual interview day.

For the purpose of analysis, cross-case comparisons and grounded theory techniques were employed to search for the dominant patterns. Grounded theory techniques were adopted as they provide a more systematic way to inductive analysis. Cross case comparison provided a systematic approach to search the dominant patterns.

| Level   | Description of activity  |
|---|--|
| Level 1: Full transcription of interviews (Bauer & Gaskell, 2000)   | Transcription of in-depth interviews which were tape recorded.   |
| <u>Level 2:</u> Familiarization (Ritchie & Spencer, 1994) and initial interpretation of the transcripts (Patton, 1987 cited in Cope, 2001)  | Immersion in the data: listening to tapes, reading transcripts (Ritchie & Spencer, 1994) while writing comments in the margins indicating what can be done with different parts of the data ... several readings of the data are normally necessary' (Patton, 1987; p149 cited in Cope, 2001). |
| <u>Level 3:</u> a) Grounded theory procedure of open, axial and selective coding (Strauss and Corbin 1994)<br>b) Cross-case comparison of all cases at each step of open, axial and selective coding. | All the interviews, after preliminary analysis in familiarization stage, were analysed using the analytic procedures of grounded theory (Strauss and Corbin, 1994) of open, axial and selective coding. Cross case comparison was conducted at each step of open, axial and selective coding.  |

**TABLE 3 (Source: Author)**

#### **4) PRESENTATION OF FINDINGS**

Our findings are presented in two sections. The first section discusses the social and experiential makeup of entrepreneurial learning. The second section will discuss the role of learning in the emergence of dynamic capabilities.

### **a) Existing knowledge as effective elements in venture start-up**

In this study, past experiences, learning and prior knowledge played a crucial role for the CWE in starting their own business. The majority of participants mentioned that the knowledge gained through past experiences became the ground for starting a particular business. Each CWE brings a unique knowledge to her venture which is made up of her background and reflects her experiences and learning. This further confirms that the entrepreneur discovers different opportunities because their prior knowledge differs (Shane, 2000). Thus while recognising or developing and acting upon opportunities, each CWE in this study thus appeared to have noticed information in relation their existing knowledge (Shane and Venkataraman, 2000). Thus for each CWE, their unique prior knowledge worked as a resource as it enabled them to recognise and act upon opportunities for creating their own venture in the creative industries subsector.

*“...and I suppose all that background in the bank has given me the ability to speak to people” (DB)*

Implicit in their narratives was the knowledge that they possess in relation to the venture that they were intending to start. Shane (2000) explicated three dimensions of the prior knowledge that entrepreneurs are most likely to utilise while in pursuit of opportunities :

- 1) **Markets:** *such as information about supplier relationships, sales techniques, or capital equipment requirements that differ across markets (von Hippel, 1988).*
- 2) **Ways to serve markets:** *such as a new technology that might change a production process, allow the creation of a new product, provide a new method of distribution, permit a new material to be used, generate new sources of supply, or make possible new ways of organising (Schumpeter, 1934).*
- 3) **Customer problems:** *the solving of which enables customers to gain optimal benefits from the innovation (Cited in (Sanz-Velasco 2006).*

Thus, the multidimensional prior knowledge is required to start up ventures. However, CWE revealed another element that was effective in searching for opportunities which is related to the nature of inputs required to exploit the opportunities that they prefer. The knowledge that is active in pursuit of opportunities for venture creation includes the knowledge regarding the nature and flexibility of inputs. As some of the CWE were looking forward to creating their venture at home

so as to attain both effective management of their venture and motherhood, they kept in view the inputs that were flexible enough to be accommodated at home. Thus the knowledge of inputs required also plays a crucial role in exploitation of opportunities. Therefore, the knowledge that they bring with them recalls or reflects a long, intense learning process which allows them to create their ventures.

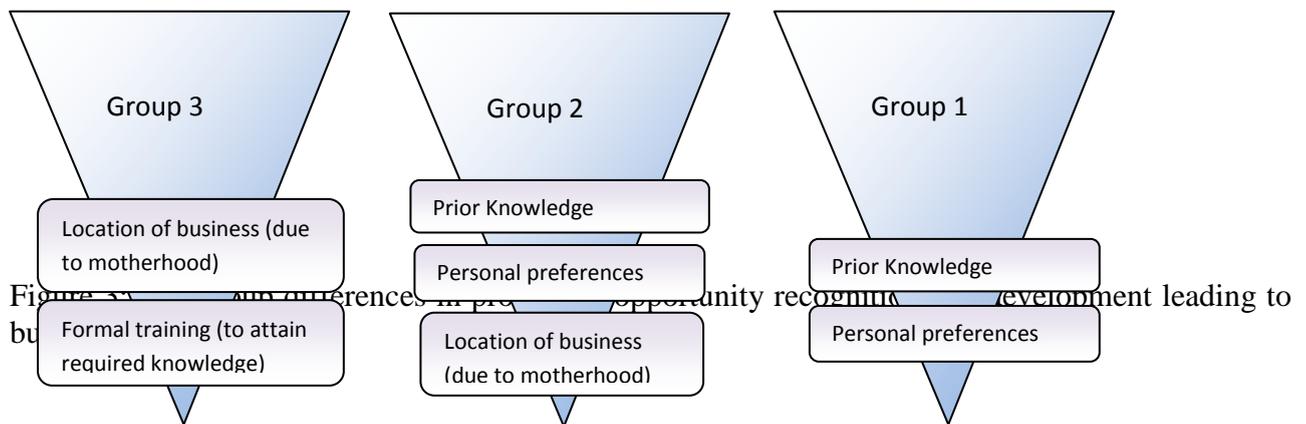
*I was a single parent before I started a business and didn't work before that so, I started my business in 2004, so previous to that, probably about 14-15 years I hadn't worked outside of home at all, just a few little things in admin to help my sister around, she has her own business as well, and so mainly just raising the family, and then in 2004 I felt my youngest child was getting towards leaving junior school and the way the benefits works is that they encourage you to go to work, for me to go out to work seemed like very big thing, it seemed more like oh my god, going out and working under some one, so I sort of thought something I could do from home, so that was the main reason for starting this kind of business, was to work from home and manage both home, younger child and business.(AL)*

The composition of prior knowledge is complex and several factors seem to contribute to it. While the foundation is laid by the early educational experiences, the employment experiences played a critical role in building up practical knowledge of how things work in the corporate world. The majority of the creative women entrepreneurs spent a lengthy period of time which spanned over several years as an employee in various organisations. This time period allowed them to attain experience and practical knowledge of how organisations work which in turn facilitated to understanding and know-how in terms of the respective industries in which they worked. In each employment position, they were expected to fulfil some duties which were predefined by the employer. These predefined responsibilities enabled them to mould their knowledge accordingly, hence adding to their experience and learning. Much of the learning that was counted as significant occurred due to these predefined responsibilities which enabled them to gain technical knowledge in relation to products or services, problem solving and functional knowledge regarding the way organisations work and how organisational routines are set. This also shaped their personal preferences and choices for particular ways of doing things while avoiding others deliberately. Thus, not only technical and functional knowledge is attained (Rae, 2003) but another aspect of their own selves is also exposed to them. Furthermore, it also taught them how to communicate with people in a more professional and sophisticated way; a knowledge that proved crucial in keeping strong relationships with customers. This further confirms the profound influence of previous career experience on entrepreneurial formation (Gibb, 1994; Mitton, 1997). This also asserts that individuals who opt for starting their own business hold unique learning histories (Cope, 2001).

However, when it comes to the evaluation and actual exploitation of opportunities, other factors may come into play as well. Ardichvili et al. (2003) identified other factors that influence the opportunity recognition or creation process leading to business formation as:

- entrepreneurial alertness;
- information asymmetry and prior knowledge;
- social networks;
- personality traits, including optimism and self-efficacy, and creativity;
- type of opportunity itself.

Within this study, along with the above factors, entrepreneurs' predispositions and personal preferences shaped by their own inclination and circumstances also came into play which influenced the choice and location of business and growth aspirations. Each participant in this study pursued an entrepreneurial career with a different motivation ranging from career advancement strategy, to attainment of control over one's own destiny to a source of income and a flexibility of place and time.



All of these, however, could be understood by employing a general but well-known push-pull divide or opportunity-necessity lens. In this regard, in some cases, motherhood appeared as a motivation in a quest for opting for a career that does not clash with the mother-child setup. This is in line with the well documented motivations of “work-family balance” of women entrepreneurs (Shelton 2006; Kirkwood and Tootell 2008)

These diverse motivations influence the way CWE recognise and act upon opportunities available to them. On these grounds, CWE in this study could be divided into three groups, illustrated in figure 7.1, showing intergroup differences in the process of opportunity recognition and development leading to business formation. These elements are prior knowledge and personal preference inclination towards conventional gender roles (in form of choice of business location) which influenced the type of opportunity exploited and determined the initial shape of the venture. To put it simply, predispositions and prior knowledge together influence the process and outcome of business formation. This in turn appeared to have influenced their efforts invested in learning, growth orientation and capabilities. The learning processes however are social and experiential in nature which is discussed in the next section.

**b) The social-experiential nature of learning**

The second theme developed in the preceding chapter pertains to the social and experiential makeup of entrepreneurial development in the conceptual framework (chapter 4). This in turn is not independent of the context of creative industries. CWE in this study consistently mentioned their learning in relation to their products or services and business venture. Thus the social and experiential process led to creative learning and functional learning.

Once the venture starts taking its form, the existing knowledge becomes the base for generating new knowledge. New information is often complemented with prior knowledge to make it useful (Shane and Venkataraman 2000). Experience, social interaction and observation appeared to be of tremendous importance in attainment of new information and played a more expansive role in learning and capability development. Particularly, it initiates learning in relation to how things are done, establishing routines and practices that are likely to work in a given situation (Rae, 2003). Moreover, social and experiential ways of learning are often not distinct and isolated from each other. They often take place in conjunction, thus complementing each other.

Experiential ways of learning particularly involve exploitation of existing knowledge and exploration of new knowledge (March 1991; Levinthal and March 1993) involving trial and error and reflective practices (Kolb 1984) and often occur in iterative fashion. Within the process of exploration, of particular importance are the unsuccessful experiences in generating important learning (Karatas-Ozkan 2006). Unsuccessful or unpleasant experiences expose to them their own mistakes, thus shaping and expanding their existing sphere of knowledge

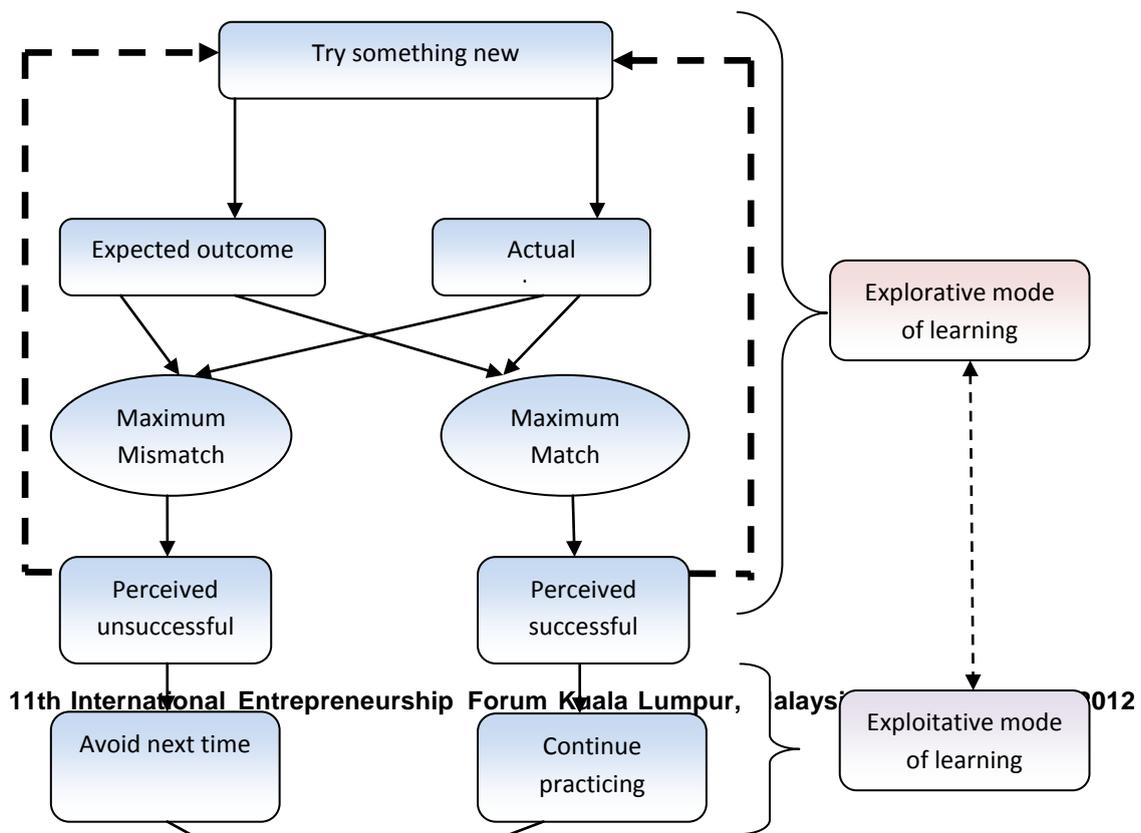


Figure 4: Trial and error process of new learning

One of the recurring themes in this research is trial and error and this appeared as a major way of generating important learning in relation to their products as well as their business. This trial and error involved an interplay of explorative and exploitative modes of learning as illustrated in figure 7.2. The maximum match and mismatch between the expected and actual outcomes were perceived as successful and unsuccessful which determined the subsequent continuity or discontinuity of a particular action generating a change (new) behaviour or potential for change (new) behaviour (Engeström 2009; Lefrancois 2011). Predominantly, trial and error is supported by a personal urge to learn something new and hence mostly encompasses deliberate learning. CWE in this study often tried to fill up the perceived learning gaps which in turn reflect their personal urge to learn and enhance their capabilities.

The above processes are integrated and occur in conjunction with purposeful social interaction and careful observation of surroundings. Social interactions occur in several forms. Such as with immediate family members, friends and business associations. The social interaction in this case played a major role in the learning process in terms of providing necessary information, learning skills, sought solutions for business related issues, emotional support and recommendations to knowledgeable people in the best interest of their business. In this way social interactions with people in their network facilitate learning (Keeble, Lawson et al. 1999).

Another form of social interaction appeared in the form of attending networking events and joining “self-administered” networking groups. Joining networking groups and becoming part of entrepreneurial communities exposed the women to diverse information and helped them to

develop professional relationships with various people having diverse skills. This depicts the tendency of “sociality” (i.e. forming communities and groups) (Taylor 2011) which facilitate learning in relation to business and learning in relation to product. The former is conceptualised here as functional learning (Rae 2011) while the latter as creative learning. This tendency of sociality initiates or triggers new ideas for their products/services which opens up the possibility of incremental improvements. The learning in such social context occurs due to participation and sharing with other people (Rae, 2003). This created a social context of communication and exchange of ideas within which CWE’s learning and knowledge is amplified, developed and enlarged (Sawyer and Gilsdorf 2008). The social context also facilitated learning by providing an opportunity to observe “relevant” people around them. The notion of “relevant” reflects that perception and choice of who and what to observe which in turn was formed by the nature of product and business. This again asserts that entrepreneurs look for a particular form of new information which is most relevant to their existing knowledge (Johannisson, Ramirez-Pasillas et al. 2002). The accounts of CWE in the research suggest that observation was mainly helpful in learning about their products/service. It mostly triggered an idea and exposed them to a new form or shape of their own products/service. This idea was implemented via trial and error processes on the basis of their existing knowledge. In this way observation also becomes purposeful and adds to their existing landscape of technical know-how.

These methods, however, do not occur in isolation from each other. Nor should they be considered as distinct methods. Rather they occur in conjunction with each other in a synchronised fashion. Thus learning becomes more an iterative process of social and experiential learning. This is illustrated in figure 7.3. The social context of interaction with people also allows careful observation of each other. This provides them with the opportunity to compare their capability with others which facilitate learning (Erikson 2003). In turn, it initiates new ideas to be implemented and hence new grounds for trial and error by integrating the new information/idea with existing knowledge. The new ideas emerged as a result are discussed and sorted by interacting with those in immediate relationships or relevant people in order to seek suggestions for further development and implementation. The opportunities emerged are also discussed with relevant people.

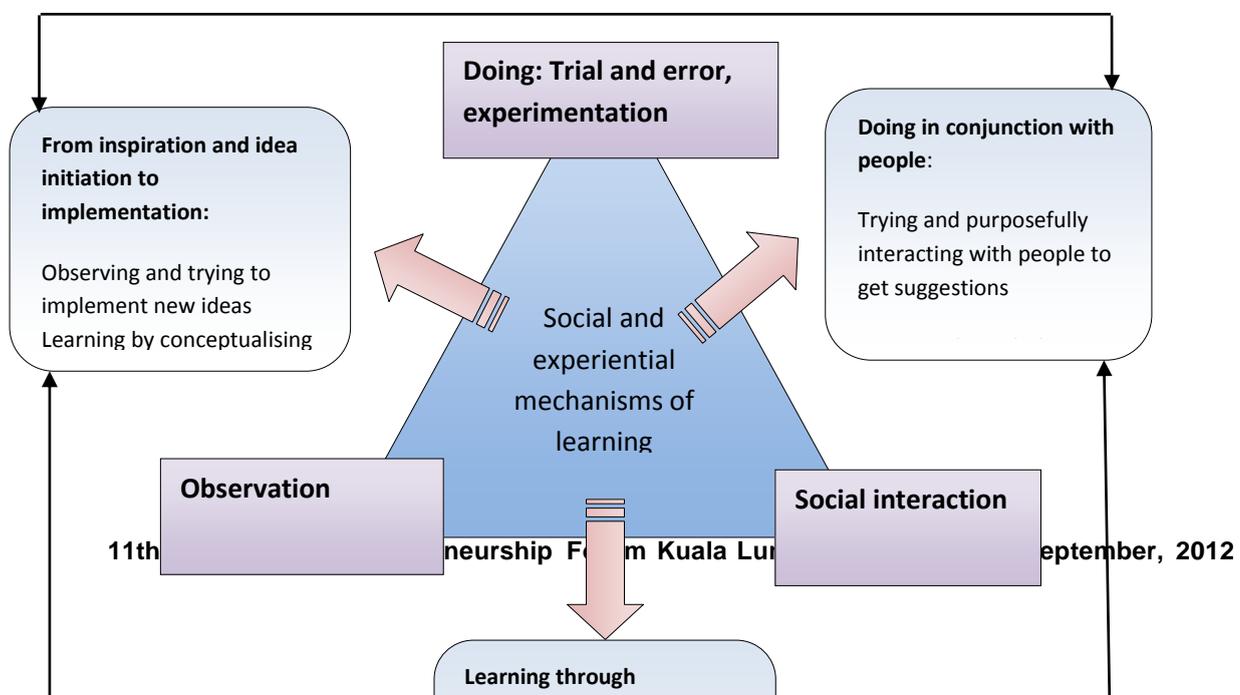


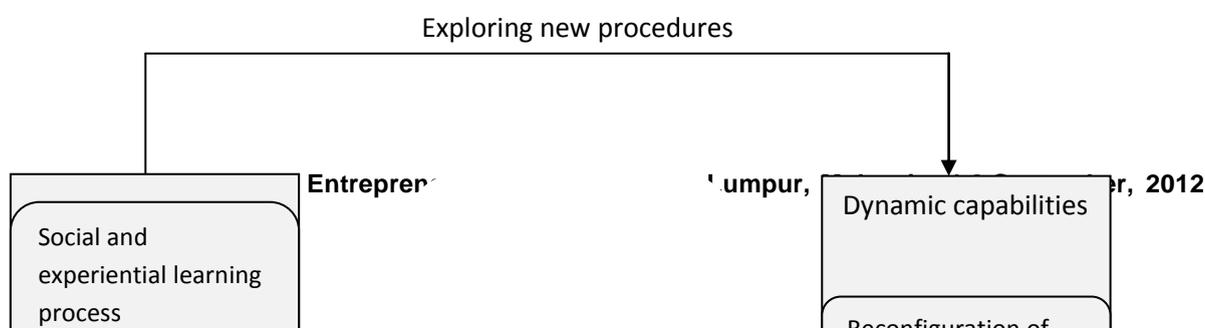
Figure 5: The social and experiential methods of learning

**c) The role of learning in emergence of capabilities**

This section discusses the role of learning in emergence of dynamic capabilities and growth aspirations. The existing literature has conceptualised dynamic capabilities at the level of firms or organisations. This research links learning with dynamic capabilities at the individual level and conceptualises the individual entrepreneur as a source of dynamic capabilities when they reconfigure their resources, particularly their learning content.

**d) Dynamic capabilities at the micro level: Entrepreneurs as a source of dynamic capabilities**

Learning played a significant role in the emergence of dynamic capabilities leading to attainment of venture growth and addressing the external stimuli. Learning is central to the entrepreneurial activity in terms of opportunity recognition and exploitation (Katila and Shane 2005). New behaviours are learned by venturing into creation and management activities which result in new knowledge (structures) which is conceptualised as entrepreneurial learning (Dutta and Crossan 2005; Lumpkin and Lichtenstein 2005). CWE in this study, via social-experiential learning processes, acquired creative growth which in turn served the purpose of recognising and acting upon opportunities. However, after the business formation, they were exposed to the dynamic environment of the creative industry. As mentioned in the previous section, CWE responded to the market forces of the creative industry, such a diversity of customers’ demands and rapidly changing trends. To ensure venture survival and growth, entrepreneurs have to learn and develop capabilities as it provides a way to remain lean and agile and adapt to the changing situations (Jones et al., 2006).



## Figure 6: Learning and dynamic capabilities

Figure 6 delineates the learning process behind the emergence of dynamic capabilities. The diversity of customers' demands is addressed via reconfiguration of resources, particularly learning content (knowledge resource) to find a new combination of inputs and address the external stimuli. Trial and error processes appeared to be of significant value for addressing such situations. Moreover, the CWE in this study offered products that hold aesthetic value and mostly, these products need alteration with changing trends. Thus, substantial efforts were made to keep their business (particularly products/service) in accordance with changing trends.

This resulted in looking for and adding new resources to the existing ones which were largely identified via participation in the form of social interaction and observation (Lave and Wenger, 1998). Thus there was a search for a suitable match between resources and market opportunities (Boccardelli and Magnusson 2006). However, this involved subjective judgments of the CWE and resources were reconfigured according to what was assumed as optimal in a given situation. Thus, CWE developed dynamic capabilities by reconfiguring their resources in a manner envisioned and deemed appropriate by them (Zahra et al., 2006). In this way the entrepreneur could be seen as a source of dynamic capabilities. The resource reconfiguration and integration of new resources is conceptualised as entrepreneurial bricolage (Jones et al., 2011). Bricolage means "making do by applying combinations of the resources at hand to new problems and opportunities"

(Baker and Nelson, 2005: 333). Miner et al. (2001) proposes bricolage as resourcefulness and improvisation on the part of involved actors. The reconfiguration or integration of resources in turn adds to their learning content and knowledge resources. Thus there is a cyclical relationship between the dynamic capabilities and learning at the individual level.

#### **e) Conceptualising “time” as a resource and “time reconfiguration” as dynamic capability**

“Entrepreneurs are by nature constrained of resources and one of the most important resource in addition to cash is time”(Cardon and Tolchinsky 2006). It is one of the most crucial resources required by entrepreneurs to start and grow their ventures (Owen and Greene 2004). While researching women entrepreneurship, childcare and motherhood has appeared in tension with allocating time to business (Tsuzuki, 1994; Welter and Smallbone, 2010). Children are dependents who require time to be spent on their care (Owen and Greene, 2004). Effective time management is not exclusively a challenge to entrepreneurs (Kuratko and Hodgetts, 2008: 440). Entrepreneurs must learn to use time as a resource (ibid). It could be challenging for women entrepreneurs who are subjected to manage both their business and motherhood. Women entrepreneurs are considered as confronting “time poverty” (Morris et al., 2006). Thus, in such cases, “prioritization” or categorisation of activities is recommended for entrepreneurs (ibid). However, in this thesis, those women entrepreneurs who aspire to grow their own venture as well as effectively manage their role as mother, in fact reshuffle their time between business and childcare. This was largely dependent upon the existing situation and hence was not fixed or static. Rather it changed with the demand of the situation. They also seek others’ help (such as professional childcare nurseries or family members) to help them in taking care of their child so that they can allocate some time to business which however, is not always available and expensive (in the case of professional childcare nurseries). In this case, reorganizing and restructuring time becomes a deliberate and legitimate choice. This, however, largely depends upon the women entrepreneurs’ subjective judgment and what is considered as appropriate in a particular situation which can ensure attainment of the venture growth objective and particularly in meeting customers’ demands. This ability to “reorganise time” according to the situation while working towards attainment of growth aspirations could be understood as a dynamic capability of women entrepreneurs. Dynamic capabilities are viewed as the ability to reconfigure resources and routines in a way envisioned and deemed appropriate by the principal decision maker (Zahra et al., 2006), involving adaption and change (Helfat and Peteraf, 2003). The next section discusses the role of learning and dynamic capabilities in growth aspirations of CWE in this research.

#### **5) Conclusions:**

This thesis contributes towards understating the entrepreneurial learning process in relation to dynamic capabilities and growth aspirations of female entrepreneurs in creative industries by employing an integrated social experiential learning approach. The existing cognitive and social approaches to entrepreneurial learning appeared as “rivals” and “mutually exclusive”. These views

overlook the complementarities of the two learning process in dynamic and real life contexts. Entrepreneurial learning is seen as a path towards emergence of dynamic capabilities. Consequently, the dynamic capabilities are explored at micro-level by taking individual entrepreneur as a source of dynamic capabilities, a deviation from previous approaches which tend to focus at an organisational level.

The research finds that social and experiential process shape the creative women entrepreneurs entrepreneurial learning content. Specifically, creative learning and functional learning were found to shape the content of learning which, functions as a knowledge resource for creative women entrepreneurs. These knowledge resources were either reconfigured or new resources, integrated according to entrepreneur's subjective interpretation of the situation in order to respond to the external stimuli that appeared in form of customers demand, rapidly changing lifestyles and increased competition. This lead to the emergence of dynamic capabilities which, in turn lead to enrichment of learning content and consequently meeting of the venture growth objectives.

Thus, entrepreneurial learning in the creative industry is elucidated, in this study, as a process of creative growth which is exploited to recognise and act upon opportunities and interact socially to meet growth aspirations. Emergence of dynamic capabilities is an integral part of the entrepreneurial learning process.

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# **EXPLORING EXPATRIATE ENTREPRENEURSHIP AND THE ROLE OF NETWORKS DURING THE PRE-FOUNDING STAGE OF A START-UP THAT IS BORN ABROAD**

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## **Abstract**

### **Objectives:**

In this study we introduce expatriate entrepreneurship, entrepreneurs that start-up a venture abroad, as a new subgroup of immigrant entrepreneurship, and research the role of networks for expatriate entrepreneurs during the pre-founding stage. Understanding expatriate entrepreneurship requires in-depth knowledge of the role networks play in enabling and facilitating the launch of a venture that is born abroad.

### **Theoretical Background/Previous Practice:**

Birley et al. (1985) showed that the network of an entrepreneur plays an important role when starting up a business, by providing information and support for the entrepreneur. Networks are an integral part of the assets of entrepreneurs that are successful and entrepreneurs spend considerable resources on establishing their networks, testing them, and servicing them. Larsson and Starr (1993) showed that when establishing a firm, then networks play a critical role for the exchange of information. Yet, previous research has not looked into the role of local networks of expatriate entrepreneurs, investigating whether networks also play an essential role for this group during the pre-founding stage.

### **Approach/Methods**

:

Our research used an intradisciplinary approach, whereas we incorporated international entrepreneurship research, immigrant entrepreneurship research and network-based research. To investigate expatriate entrepreneurship we conducted an exploratory case study using semi-structured interviews.

### **Results/Insights:**

Expatriate entrepreneurs differ from other types of immigrant and ethnic entrepreneurs by starting-up firms abroad. We show that they are characterized by the search for a country with optimal business conditions for a start-up, and their propensity to indulge in circular migration. Our findings show that expatriate entrepreneurs seem to differ from other entrepreneurs in their need of a pre-founding network. Expatriate entrepreneurs are less dependent on the local network than other types of immigrant entrepreneurs.

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**Implications:**

There has been limited research on corporations that are launched from the outset outside the country of residence of the founder(s). This research gap is somewhat surprising, given the world is becoming increasingly globalized, and national borders are playing less of a role when the entrepreneurs decide where to launch their venture. Language, cultural and migration barriers have gradually decreased, making it possible for entrepreneurs to launch their operations in a plethora of nations. Thus, it is becoming increasingly possible for entrepreneurs to choose the country of inception based on where they believe the best conditions for their business prevails. Our research has consequently important policy implications, as it might serve as the foundation for government initiatives that attract migrant entrepreneurs that generate jobs for the local economy. Such initiatives are already starting to take-off, as evident from Start-Up Chile and New York City Venture Fellows.

**Keywords:** international entrepreneurship, expatriate entrepreneurship, immigrant entrepreneurship

## **Introduction**

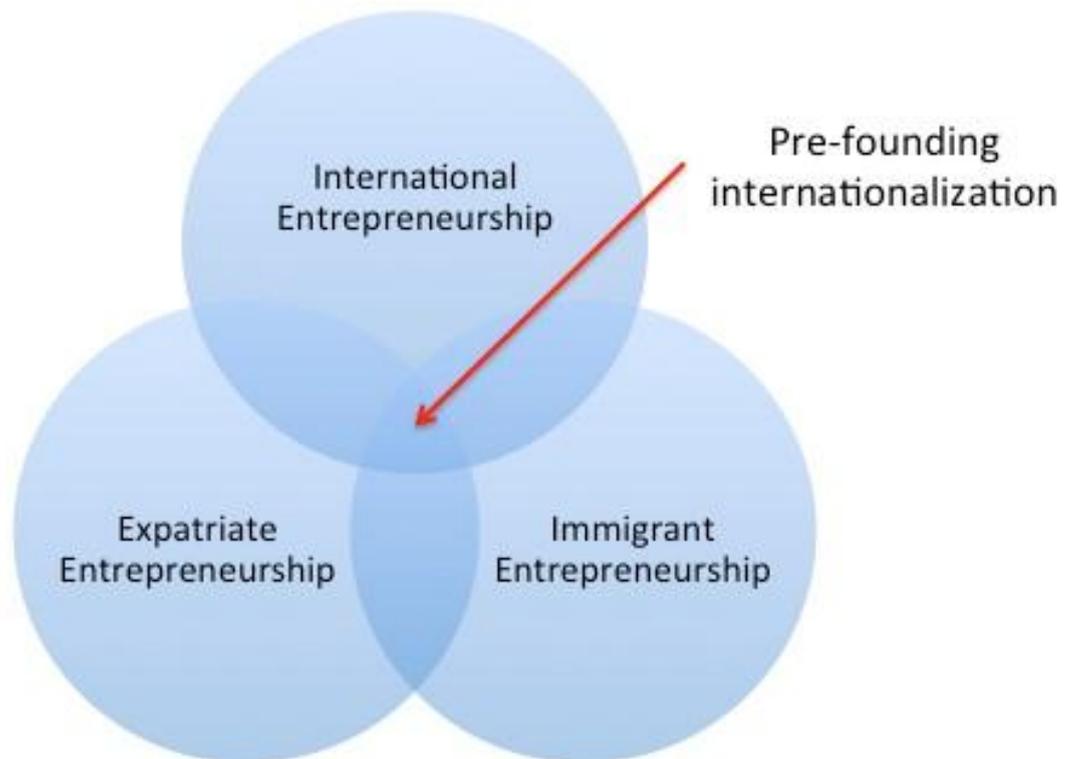
Many immigrants are united by that they are both dreamers and risk-takers, thereby holding some of the most important traits of successful entrepreneurs. Hence, it is not difficult to understand why 40% of the Fortune 500 companies were established by immigrants or the children of immigrants (Bloomberg, 2012). A recent study in U.S.A. revealed that immigrants are more than twice as likely as native-born Americans to start a new business (Bloomberg, 2012). This finding has been confirmed from other parts of the world, showing that immigrants launch businesses to a higher extent per capita compared to the general population (Dana, 2011). Nonetheless we know surprisingly little about the economic contribution of highly-skilled immigrants (Saxenian, 2002). In this paper we add another dimension to the nexus of immigration and entrepreneurship, which is internationalization. Hart and Acs (2011) showed that immigrant entrepreneurs are more likely to have strategic relationship with a firm located abroad. In addition, Lu and Beamish (2001) showed that firm growth is linked to internationalization. Immigration, entrepreneurship, and internationalization are all heavily influenced by networks. Greve and Salaff (2003) showed that networks are important for founding a venture by providing resources. However, there has been less research on the role of networks in the pre-founding stage of a venture, and remarkably little is known on the role of pre-founding networks when the start-up is not launched in the entrepreneur(s) country of residence, i.e. the firm is born abroad.

This paper will first introduce and discuss expatriate entrepreneurs, those entrepreneurs who migrate in order to start-up their venture outside their current country of residence, and will also investigate their use of networks when starting up a business abroad. Recent government policy initiatives such as Start-Up Chile and New York Venture City Fellows have put the spotlight on expatriate entrepreneurs. Both programs are government initiatives focused on attracting entrepreneurs from other countries to move to Chile and the United States, respectively, in order to launch their ventures. These programs are proof that the choice of start-up country is becoming increasingly unconstrained, which has long-ranging consequences for entrepreneurship. The globalization of the choice of the start-up country might have a sizeable impact on levels of entrepreneurship around the world.

The purpose of this paper is two-fold. First, we introduce and define a new subgroup of immigrant entrepreneurship that we denote “expatriate entrepreneurs”. Second, we explain the importance of networks when expatriate entrepreneurs choose the start-up country during the pre-founding phase. Researching expatriate entrepreneurship requires an intradisciplinary approach, as these entrepreneurs operate in the intersection of international entrepreneurship and immigrant entrepreneurship research. The above-mentioned research streams presupposes that these entrepreneurs start-up their business in the country that they currently live in. Thus, it omits taking into account the entrepreneurs who choose to emigrate in order to start-up their venture in another country due to better business conditions. The nexus of the three above mentioned research streams is pre-founding

internationalization (Figure 1). Mathews and Zander (2007) argue that internationalization has an important and influential pre-venture history and should not be perceived as a process that started with the firm's first engagements in foreign markets.

**FIGURE  
1.**



Approximately 25% of all U.S. technology and engineering firms that were launched between

1995 and 2005 had an immigrant founder (Goldin et al., 2011). Immigrants or the children of immigrants to the U.S. are founders or co-founders of Google, Intel, Paypal, eBay and Yahoo. One region with favourable business conditions that has been successful in attracting immigrant entrepreneurs is Silicon Valley, where 52% of all companies are founded by immigrants. Saxenian (2002) was one of the first to show that immigrant entrepreneurs have played an important role in the success of Silicon Valley. But we know little about these immigrants; did they move to the United States in order to launch a business or did they start a business after working as employees?

Expatriate entrepreneurs bring experiences from two or more countries and thus possess a different set of economic capital, cultural capital, social capital, and symbolic capital (Terjesen and Elam, 2009). One can also expect them to be different in terms of motivation and experiences (Portes et.al, 2002). Entrepreneurs are constrained in terms of resources when compared to multinational corporations (Acs et.al, 1997). However, this constraint gives them also an advantage by not having sunk costs in an existing market when wanting to establish operations abroad, meaning that they also can react fast to opportunities in new markets. This brings us to question what is the role of an expatriate entrepreneur's

network during the pre- founding stage of his/her business. We know from Birley (1985) that the network of an entrepreneur plays an important role when starting up a business. However, expatriate entrepreneurs will have limited local networks in the new start-up country. Therefore, we want to

investigate the process by which they form networks that match the requirements of the venture

(Hite and Hesterly, 2012)

### **Defining Expatriate Entrepreneurship**

The aim of this section is to define and place the term “expatriate entrepreneurship” in context and relate it to the current immigrant entrepreneurship and international entrepreneurship typology. Expatriate entrepreneurship is a term that we introduce for the first time in this paper. Immigrant entrepreneurship includes many different groups of migrant entrepreneurs, with different traits. We place expatriate entrepreneurs as a new subgroup of immigrant entrepreneurship, because we find major differences compared to other types of immigrant, ethnic, and minority entrepreneurs.

#### **Entrepreneurship and migration**

To date, most research on successful immigrant ventures has been done in the United States and United Kingdom. In many cases, Asian immigrants are studied, and the overall findings cement a picture of Asians as a highly successful group when it comes to entrepreneurship. The success is often explained by cultural factors such as hard work, the possibility to hire family members, and use of ethnic networks (Basu and Goswami, 1999). In addition, immigrants can increase the search area in which entrepreneurs look for business opportunities (Hart and Acs, 2011). For instance, by having lived in other countries, they could be more inclined to notice opportunities that natives miss because they do not have prior experience from other markets. We know that immigrant businesses that focuses sales on the same ethnic group performs worse than the ones that focus sales on the general public (Bates, 1994).

Chaganti and Greene (2002) classifies the research on entrepreneurship among minorities into three groups:

- **Immigrant entrepreneurship:** a broad category that encompasses all individuals that have emigrated and started a venture, mostly in order to earn a living. It does not matter when in the life cycle of the immigrant the business is established.
- **Ethnic entrepreneurship:** focuses on ethnicity, and entrepreneurship among different ethnic groups. The definition of ethnic group varies, but in most cases it is defined as groups with similar experiences of migration.
- **Minority entrepreneurship:** focuses on groups that do not belong to the majority population. Examples of minority groups in the U.S. would be Latinos, Asians, and American Indians. In some cases women are also included. Minority entrepreneurship is not going to be discussed in this paper, as immigrant entrepreneurship and ethnic entrepreneurship are more closely connected to the expatriate entrepreneurship phenomenon that we want to study.

In addition to the definitions above, there is a category of immigrant entrepreneurship called  
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business immigrants. These are entrepreneurs that move to another country partially motivated by the possibility of obtaining a residence permit in the new country.

There is a lack of research that goes beyond the wide scope of immigrant entrepreneurship and looks into the different subgroups of immigrant entrepreneurs. From the definitions above it is clear that entrepreneurs with an immigration background can belong to one or several of the categories. Moreover, all the categories mentioned above presupposes that the immigrant entrepreneur launches the business in the current country of residence, revealing the research

gap that we will address in this paper, by introducing the expatriate entrepreneurship concept. Immigration is in fact a phenomenon that in most cases is temporary, repeated and circular (Goldin et al., 2011). The circular nature of migration is not captured by immigrant entrepreneurship which considers immigration to be a static phenomenon, leading us to develop the concept of expatriate entrepreneurship in order to create a subgroup that builds on circular migration, making it more in line with today's migration patterns. In addition, immigrant entrepreneurship research does not distinguish reasons for migration, for instance: political, family, education, or economic reasons. Starting a business based on economic necessity, i.e. inability to get another job, or moving in to another country because of optimal business conditions, is clearly different. Out of the categories described above, expatriate entrepreneurs have most in common with business immigrants. Therefore, in the next section we will discuss similarities and dissimilarities between business immigrants and expatriate entrepreneurs.

### Business immigrants and Expatriate Entrepreneurship

Business immigrants programs have been designed by governments to increase economic growth by getting entrepreneurs with a proven track record and financial means to relocate to the country. Business immigrant programs exist in approximately thirty countries. Canada, Australia, New Zealand and Singapore are some of the ones that have been the most keen to admit business immigrants (Ley, 2003). Official data from these countries often presents these programs as successful, but some researchers have also criticized the governments for exaggerating the benefits of their respective business immigrant programs (Ley, 2003). Business immigrants are often required to be serial entrepreneurs who already have a started a successful businesses in their home countries and also possess considerable financial resources. Thus, business immigrants have been defined according to certain criteria that governments introduce. One key problem with business immigrant programs, is that it is difficult for governments to identify immigrants who might become successful entrepreneurs (Clydesdale, 2008).

An additional issue with business immigration, as shown by Ley (2003) is that some business immigrants keep their business in the home country and only spend in the new country the minimum time required in order to get a residence permit. Thus, countries with business immigrant programs sometime attract entrepreneurs whose main goal is to obtain a residence permit, instead of establishing a successful business. Expatriate entrepreneurs, on the other hand, move because of perceived good business conditions, and obtaining a residence permit is not an important factor in them deciding to move.

### International Entrepreneurship and Expatriate Entrepreneurship

In the 1990:s there was a shift in the view of how some firms internationalize their business. Researchers noted that some firms operated abroad very soon after being incorporated, and hence had limited experience from the domestic market before venturing abroad (McDougall et al., 1994). These firms were defined as "born globals", and were often launched by entrepreneurs that had international experience and/or an extensive network of international contacts. A stream of born global research looked into the importance

of the networks of a firm's key individuals (Andersson and Wictor, 2003)

A major difference between expatriate entrepreneurship and international entrepreneurship is that international entrepreneurship is largely unconcerned with issues of ethnicity and multiple affiliations. In addition, international entrepreneurship deals with accumulation of knowledge by the firm rather than by the individual entrepreneur, thus failing to consider entrepreneur-specific

variables. McDougall et al. (1994) have, to some extent, investigated the link between the born global concept and entrepreneurship theories, but they do not explain why certain markets are chosen by the entrepreneur over others.

### Pre-founding Networks and Expatriate Entrepreneurship

Previous research shows that entrepreneurs focus their attention on forming networks that match the requirements of the venture (Hite and Hesterley, 2001). Personal networks of key individuals, such as the entrepreneur, are very important when firms' internationalize their operations (Madsen and Servais, 1997; Ellis, 2000). These networks also help in identifying business opportunities abroad. When researching expatriate entrepreneurship it is important to look at the pre-firm migration network of the entrepreneur as this will influence whether the entrepreneur will move to another country and where he or she moves. Migration theory argues that the insertion of people in migration networks explain why some people move and why others do not, and also why there are migration flows between specific countries (Goldin et al.,

2011). There are also differences in type of networks different migrants use. Highly educated migrants usually rely more on networks of colleagues and alumni while lower-skilled rely on kin networks to initiate migration (Goldin et al., 2011). In this study we want to investigate if migration networks can also explain why entrepreneurs launch business abroad.

Slotte-Kock and Coviello (2010) showed that network theory increases our understanding of the entrepreneurial process, partially because network interactions are important for the identification, evaluation, access, and exploitation of business opportunities. Entrepreneurs spend significant resources on establishing their networks and servicing them. Hoang and Antoncic (2003) called for more studies covering the evolution of networks during a time period. We are partially contributing to this call, as we are providing research on the role of networks at the pre-founding stage.

Hite and Hesterley (2001) argue that networks are an important factor that accelerates the emergence and growth of firms. We already know that the entrepreneurs' personal networks of relationship were important for firms that internationalized soon after inception, so called born global firm (Madsen and Servais, 1997). By looking at expatriate entrepreneurs and the role of networks at the pre-founding stage, we also provide information on the role of individual-level knowledge of the entrepreneur relates to a small and medium size firm's internationalization. Another aspect that could be relevant to expatriate entrepreneurs is the speed by which they build up networks. A high degree of international orientation can be expected among expatriate entrepreneurs, and in turn they might be more inclined to internationalize their business (Wiedersheim-Paul et.al., 1978). We also posit that expatriate entrepreneurs have a tendency to manage and utilize glocalized networks, which are networks in several countries.

Networks support new ventures in three main ways (Bruderl and Preisendörfer, 1998). First, by providing access to relevant information. Second, by giving access to suppliers and customers. Third, by expanding the possibilities for financing. The benefits of networks vary among the different life cycle stages of a firm (Lechner and Dowling, 2003). In the early phase, networks provide information on new business opportunities. Larsson and Starr (1993)

showed that when establishing the firm, then networks play an important role for the exchange of information. Later on, networks provide assistance with resource acquisition. In this paper we focus on the early stage, and study how networks provide information on new business opportunities for expatriate entrepreneurs. What are the implications of not having pre-founding networks in the new start-up country? Can globalized networks replace local networks when establishing a business in a new country?

## Methodology and Data

In this study we use a qualitative approach, as lack of previous studies on expatriate entrepreneurship made it well suited for an exploratory study. Data acquisition and analysis occurred concurrently, with a focus on processes, content, and understanding. In this study we describe a contemporary phenomenon with some real-life context, fitting Yin's (1994) criteria for employing case methodology. Moreover, we use direct observations, systematic interviewing, and try to answer questions as why and how. Given that, out of all entrepreneurs, expatriate entrepreneurs represent a small fraction, a qualitative research approach is suitable. Hence, we decided to use a case study methodology, including cases of four entrepreneurs.

The entrepreneurs were selected based on that they launched their business in Barcelona, Spain. The only inclusion criterion was that the entrepreneur had moved to Barcelona from another country and launched a business shortly after moving. They were identified through searches on LinkedIn.com, Internations.org and Meetup.com. Barcelona was chosen as it is a well-known hub for IT-business in Europe, having being voted as one of the leading start-up cities in Europe. All the entrepreneurs selected had businesses within information technology. Our goal was to investigate if these entrepreneurs had some traits of our theoretical "expatriate entrepreneurship" construct. The focus was on understanding why they moved, as we wanted to uncover whether business conditions played a role. We also wanted to know the role of pre-founding networks for the entrepreneurs. The results of our study are not statistically generalizable to the whole population as we have chosen the case study approach (Terjesen, 1994). All but one of the expatriate entrepreneurs was interviewed using Skype, which is a VoIP software. Data is based on interviews that lasted between 35-45 minutes, using open-ended questions in combination with a limited set of closed ones. All interviews were tape-recorded and we used an interview guide. In table 1 below the case entrepreneurs are presented.

**TABLE  
1.**

| <b>Entrepreneur</b>                                      | <b>J</b>  | <b>U</b> | <b>B</b>          | <b>M</b>              |
|--|-----------|----------|-------------------|-----------------------|
| <b>Country of origin</b>                                 | Sweden    | Sweden   | Netherlands       | Germany               |
| <b>Previous entrepreneurship experience</b>              | Yes       | No       | No                | Yes                   |
| <b>Previous knowledge of Spain</b>                       | No        | No       | Yes, worked there | Yes, worked there     |
| <b>Work or study experience abroad</b>                   | Yes       | No       | Yes               | Yes                   |
| <b>Previous or subsequent venture in another country</b> | Yes, Asia | No       | No                | Yes, Northern America |

### Review of case entrepreneurs

First, we differentiated the different cases according to whether they fit to the following groups: expatriate entrepreneur, immigrant entrepreneur, ethnic entrepreneur or business immigrant. One single entrepreneur could also be a member of several groups.

Ethnic enterprises share a set of connections “among people sharing common national background or migratory experiences” (Aldrich and Waldinger, 1990). In this case none of the

entrepreneurs have an ethnic background that is the same as the main immigrant groups in Spain. One might argue that by being an expatriate, one is sharing a migratory experience. Stone and Stubbs (2007) showed that when expatriates started a business venture, they often focused on business ideas that involved selling to other expatriates. All of the entrepreneurs had contact with expatriate community in Barcelona, but this did not have a major influence on their respective businesses. None of the businesses targeted other expatriates for sales purposes. The conclusion is that none of the case entrepreneurs can be viewed as ethnic entrepreneurs.

Can we define these entrepreneurs as immigrant entrepreneurs? Chaganti and Greene, (2002) defined immigrant entrepreneurship as individuals that have emigrated and started a venture. Thus, according to this very general definition, all our case entrepreneurs are immigrant entrepreneurs. However, this wide definition of immigrant entrepreneurship makes it also of limited use. As we will show, a migrant that moved to Barcelona because of his Spanish girlfriend and subsequently launched a business is different than a case in which an entrepreneur moved because of life-quality and business conditions in Barcelona. This is a proof, case in point, that there is a need for adding expatriate entrepreneurship to the immigrant entrepreneurship typology.

Can we define these immigrants as business immigrants? The goal of a business immigration program is to facilitate the immigration of experienced business people (Ley, 2003). The entrepreneurs stand to gain a residence permit. Hence, the government, whose objective is to get the immigrants to settle permanently, selects business immigrants and the primary reward offered to successful entrepreneurs is residency. Expatriate entrepreneurs are driven to move out of business reasons and also have a predisposition towards circular migration in search of better business opportunities. This can be contrasted to business immigrants who move often to developed countries that have introduced programs that offer entrepreneurs a residence permit in exchange for them opening a company there. Obtaining a residence permit is not an important aspect for expatriate entrepreneurs. Expatriate entrepreneurship, is different from traditional assimilation theories, as these entrepreneurs have a global mindset being ready to move on to other countries if the business opportunities are better somewhere else (Chen, 2009).

All of the entrepreneurs interviewed possessed European Union passports, hence they were automatically granted a Spanish residence permit. Obtaining a residence permit was not important for any of the entrepreneurs. For entrepreneur J the choice to establish operation in Spain had all to do with good business and living conditions: Barcelona offered access to human capital, an attractive tax regime, good infrastructure, and an appealing climate. The entrepreneur highlighted that the low value added tax was a very important reason for choosing Barcelona. Entrepreneur U moved to Spain because his wife lived there. When moving to Spain he had plans to establish a business. His business idea was to introduce a business idea/concept from Sweden and implement it in Spain. Entrepreneur B moved to Spain because his girlfriend lived there and he took up a position with an IT company in Barcelona. After one year he left his job and started his own venture. Entrepreneur M moved to Barcelona as he liked the city and wanted to work there. He got a job at a consulting company and subsequently left to launch a venture. Entrepreneur B

could have opened the business in his native country but the paid-in capital in Spain was much lower than in the Netherlands. This was one reason for him opting to establish the business in Spain. All except entrepreneur U expressed willingness to move to other countries and establish new ventures in the future, thus to indulge in circular migration. In fact, entrepreneur M, had already moved to the United States and established another venture there.

Two of the entrepreneurs had previous entrepreneurial experience. The other two did not have any entrepreneurial experience. It seems uncertain if any of the case entrepreneurs would have been even able or interested to receive a business immigrant residence permit. Two of them could probably not become business immigrants due to the lack of previous entrepreneurial experience. The others, who have previous entrepreneurial experience, were not motivated by obtaining a residence permit. In addition, for three of them it was important that they can move on to establish a business in another country, thus illustrating circular migration traits, which would additionally exclude them from becoming business immigrants. Our conclusion is that none of these entrepreneurs can be regarded as business immigrants.

Are there any expatriate entrepreneurs among the case entrepreneurs?

So far we have shown that these case entrepreneurs are not ethnic entrepreneurs and business immigrants. All of them are immigrant entrepreneurs, but the definition of immigrant entrepreneurship is very broad, and we argue that there is a need for sub grouping. But how well do these entrepreneurs fit within the expatriate entrepreneurship construct? In Table 2, we introduce criteria, of which all need to be fulfilled, for the entrepreneur to be considered as an expatriate entrepreneur.

**Table 2.**

|   | J          | U         | B         | M         |
|---|------------|-----------|-----------|-----------|
| <b>Favourable business conditions was an important factor</b> | Yes        | No        | Yes       | Yes       |
| <b>Moved in order to launch a business</b>                    | Yes        | Yes       | Yes       | No        |
| <b>Obtaining residence permit was important for move</b>      | No         | No        | No        | No        |
| <b>Willingness to indulge in circular migration</b>           | Yes        | No        | Yes       | Yes       |
| <b>Expatriate Entrepreneur</b>                                | <b>Yes</b> | <b>No</b> | <b>No</b> | <b>No</b> |

From the table above it is clear that one of the entrepreneurs, J, can be regarded as an expatriate entrepreneur. Entrepreneur M also possesses several expatriate entrepreneurship traits, especially since he subsequently moved to the United States and launched another venture, but fails the litmus test as he did not move in order to launch a business. With this case study we have proved that our theoretical construct exists. At this point, it is not possible to comment on the scale of this phenomenon. However, an increasing amount of evidence supports the notion that this might be the case. A solid proof of the expatriate entrepreneurship concept is that major policy initiatives, such as **11th International Entrepreneurship Forum Kuala Lumpur, Malaysia, 4-6 September, 2012**

Start-Up Chile and New York City Venture, are aimed in attracting expatriate entrepreneurs. As stated on “Start-Up Chile” website “... (the program) seeks to attract early stage, high-potential entrepreneurs to bootstrap their startups in Chile, using it as a platform to go global”. Henrekson and Johansson (2010) showed that the fastest growing 1% of all firms contribute to almost the whole net growth of new jobs. Hence, a country’s economic progress is to a high extent linked to a small number of firms. Even if expatriate entrepreneurs amount to a small part of all entrepreneurs, they still can provide an important contribution to economic development.

### **Role of pre-founding networks for expatriate entrepreneurs**

Our interviews reveal interesting insights about the pre-founding networks of entrepreneurs who migrate to another country in order to launch their business. Before establishing his IT company, entrepreneur J knew that the company could be located anywhere in the world as the market was Pan-European. Subsequently, entrepreneur J started looking at which countries could be good for establishing his business, and finally chose to launch in Spain as good business and living conditions prevailed in Barcelona. He mentioned that the city offered access to human capital, an attractive tax regime, good infrastructure and appealing climate. Entrepreneur J said that he could leverage his previous business networks, since he has launched several firms before in other countries that were based on a similar business idea. To a very limited extent he depended on a local pre-founding network, as he used the network of a friend, but this occurred after moving to Spain. He also used Barcelona Activa, which provide entrepreneurs with free advice and contact to local experts, such as accountants and lawyer. This is an interesting finding, as it suggests that incubators and similar organizations, such as Barcelona Activa, can replace some of the functions that are sometime provided by networks.

Importantly, entrepreneur J is the only expatriate entrepreneur among our case companies. His main aim with establishing the business in another country was to optimize business and living conditions. This is something that characterizes an expatriate entrepreneur. For him having not having a local network was never a major issue. Entrepreneur J also mentioned that he knows approximately 20 other expatriate entrepreneurs living in Barcelona, adding that especially web designers seems to be moving to Barcelona to start a business. Most interestingly, entrepreneur J indicated in his interview that he did not know anything about Spain before he moved there, did not speak Spanish and did not have any pre-founding business network. He had successfully established several firms earlier, and he possessed the financial resources to launch the business himself. This made him less dependent on external factors such as networks. Entrepreneur J considers social (private) networks and professional networks as very much linked. He also acknowledged that he was now working on expanding his local network by going for meet-ups by in Barcelona. One can summarize his approach with his own quote “networks can always be generated from scratch”.

In the case of entrepreneur B, he started his IT business 2.5 years ago. The fact that his girlfriend lived in Spain played a large role in him deciding to move to Barcelona. He worked for one year in Barcelona and then, he launched his own company together with an associate. Some of the major reasons why entrepreneur B started his business in

Barcelona are the relatively lower salaries and taxes in Spain. As a native of the Netherlands, his network in Holland would have been larger, which he acknowledged could have been useful for sales purposes. However, he mentions that the paid-capital requirement is much lower in Spain than in the Netherlands. In addition, he mentioned that he had some local contacts through his girlfriend and also used LinkedIn extensively to approach potential clients. He also visited a Dutch professional association. In terms of his social capital, a network consisting of graduates with no previous business experience (around 5 to 10 people) and 5 people that had solid business/entrepreneurship experience were important to his business at the early stages. He also used connections through his family, his girlfriend's family, his cofounder's family for advice. He emphasized the importance of having local people that he could trust during the founding stage. For entrepreneur B pre-founding networks played a much larger role than for entrepreneur J, as entrepreneur J was a serial entrepreneur and as such he did not have an equally large need for support networks during the pre-founding stage with whom he could validate his decisions. This point indicates that serial entrepreneurs are more likely to be expatriate entrepreneurs.

Entrepreneur U, whose business idea is to import software from other countries and sell them locally in Spain. The reason for moving to Spain was that his wife lived there. Already before moving he knew that he wanted to establish a company in Spain, as he noticed that there was a business opportunity in Spanish IT sector. He had never lived in Spain, and he did not speak Spanish, but eventually learned the language. Entrepreneur U relied to a limited extent on pre-founding networks in Spain, despite it being his first start-up. He also benefited from being able to access the wife's networks. Entrepreneurs U and B look similar, but one of them relies on pre-founding networks to a higher extent than the other. What can be the reason for this discrepancy? We believe that this has to do with the substantial work experience of entrepreneur U in a major Swedish corporation, in a role that involved dealing with international clients. As such he generated experiential knowledge related to doing business in an international environment, something entrepreneur B did not have before launching the venture.

Entrepreneur M moved to Barcelona to establish his business as he liked the city and wanted to work there. He got a job at a consulting company, and subsequently left to launch a venture. After a couple of years entrepreneur M moved to the United States to successfully establish a subsidiary there and after a while he quit that position and established another company in the United States. He thinks that the physical location of the business matters. He mentioned that it is easy to find talented people in Barcelona, like many talented engineers from Slovakia who moved from Slovakia because they wanted to live in Barcelona. He also mentioned that the salaries Barcelona are 2-3 times lower than in some parts of the United States. Entrepreneur M obtained information on establishing a firm in Barcelona through the internet, invest in Spain and he also used his friends and family network. He said he used LinkedIn to expand his network. Entrepreneur M had a network in Spain after working there before opening up a business. Subsequently, he moved to the United States to set up the subsidiary of the company. After a short period of time he left the company to set up a business.

## **Discussion and Conclusion**

In this study we introduce and define expatriate entrepreneurship as a new subgroup of immigrant entrepreneurship and research the role of networks for expatriate entrepreneurs during the pre-founding stage. Our research used an intradisciplinary approach, whereas we incorporated international entrepreneurship and immigrant entrepreneurship research. We contribute to the immigrant entrepreneurship literature by introducing and defining expatriate entrepreneurship, who we define as entrepreneurs that start-up a venture in a new country. Thus, their firms are born abroad. Expatriate entrepreneurs differ from other types of immigrant and ethnic entrepreneurs by starting-up the firm abroad, being driven by the search for a country with optimal business conditions, their propensity to indulge in circular migration and for the low reliance on pre-founding networks. Understanding expatriate entrepreneurship requires an understanding of the role networks play in facilitating the launch of a venture that is born abroad.

All the entrepreneurs whom we interviewed for our study fit into the definition of an immigrant entrepreneur. After we completed our interviews we checked to see whether these entrepreneurs fit into the definition of an expatriate entrepreneur. We found out that only entrepreneur J is a representative expatriate entrepreneur among the four entrepreneurs we interviewed. One major difference that set entrepreneur J apart from the other entrepreneurs is his pre-founding network. All other entrepreneurs interviewed have mentioned the importance of their pre-founding network on the progress of their companies. Some used their family and friends networks, some already had local connections through their previous jobs. However, for entrepreneur J did not possess any of these connections before establishing his company. He chose Spain because he considered it as place for good business and living conditions,

Barcelona, a city offering access to human capital, having an attractive tax regime, good infrastructure and appealing climate. Entrepreneur J did not know anything about Spain before moving there, did not speak Spanish and did not have a pre-founding business network.

This major difference that sets entrepreneur J, an expatriate entrepreneur, apart from other types of immigrant entrepreneurs opens an interesting research question that should be investigated further: *How important is the pre-founding network of an expatriate entrepreneur for the success of his/her business?* We are aware of the fact that we are proposing this question by judging only one expatriate entrepreneur in a pool of immigrant entrepreneurs. However, this is a striking difference and should be further investigated further. We are planning to further look into the importance of pre-founding networks by conducting more interviews, both with expatriate and other types of immigrant entrepreneurs. In the case that we could actually confirm that the pre-founding network of an expatriate entrepreneur plays a less important role for the success of his/her business could have some interesting policy implications. This can be good news for countries that try to attract foreign entrepreneurs, as our results indicate that entrepreneurs that move to a new country in order to launch a business are less dependent on the local network. So by creating good living conditions, and business conditions, countries can easily attract these foreign talents.

Our results are also interesting since entrepreneurship literature has long indicated networks as an important resource that facilitates emergence and growth of new ventures (Hite

and Hesterley, 2001; Maurer and Ebers, 2006). Birley et al. (1985) showed that network of an entrepreneur plays an important role when starting up a business, providing information and support for the entrepreneur. However our limited results show that pre-founding networks are not as crucial for expatriate entrepreneurs, which is an interesting result considering the emphasis on the importance of networks suggested by the literature.

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# QUALITY FUNCTION DEPLOYMENT APPROACH IN ISLAMIC BANKING PRODUCT PERFORMANCE

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## ABSTRACT

*Reflecting the progress of Islamic banking in Malaysia, it has been almost 30 years of its achievement and Malaysia has becoming a hybrid market in the field of Shari'ah based financial system. The growth has been significant where it has contributed to strengthening the economic despite the challenges derived from liberalization and globalization pressures. Taking from the constantly growth trend of Islamic banking scenario, ensuring the sustainability growth through the customer satisfaction via product development for the years to come is inevitably paramount. Competing with the conventional banking system as part of the underlying process of gaining market share requires the sustainability product momentum. Hence, ensuring customer's satisfaction in the Islamic banking products utilization plays important role in sustaining the upward growth chart and the presence of quality management system and improvement tools in identifying major components in the product development is rather crucial. Therefore, this research is undertaken in the objective to study and develop simplified Quality Function Deployment (QFD) as an appropriate tool in Islamic Banking strategic product development and thus, facilitating the customer's*

*satisfaction. This study will use a quantitative study which is similar to research methodology applied by previous researchers. Self-administered questionnaires that are structured into general information, customer requirements and technical components will be employed involving the sample from Islamic home financing customers in the state of Johor. Factor analysis, correlation and regression will be used for data analysis.*

*Thus, the finding from this study will show that by generating taxonomy for quality management system and improvement tools, a simplified quality technique will be developed and adopted for further product improvisation in the light of customer satisfaction.*

Keywords: Product performance, Customer satisfaction, Quality improvement tools

## **BACKGROUND**

The concept of Islamic banking was conceived in Malaysia back in 1963 with the inception of Muslim Pilgrims Savings Corporation which was set up to help people save their money for performing hajj. Starting from the small function, Islamic banking has gradually grown for the past four decades and according to Mersch (2010), the opportunity to grow could be considerably increased by benchmarking the past performance. In continuity, the Malaysian Islamic banking system (MIBS) has registered an encouraging achievement in the perspective of both the resilience of the industry and its sustained recovery (Parker, 2011). Capitalising on the growth trend, comprehensive Islamic banking system was developed and such infrastructure is aimed at creating the efficient and progressive Islamic banking towards generating high growth in the economy. As a result, Malaysia's Islamic banking assets has grown up with an average rate of 18 to 20 per cent while accommodating more than 60 Islamic financial products and services including musyarakah mutanaqisah home financing, Ijarah sukuk, and commodity murabahah deposits (MIDA, 2009).

Islamic banking is a form of financial tool that is based on Shari'ah, or the body of Islamic law. Abdullah and Chee, (2010) stated that the underlying key principles are belief in divine guidance, no interest, no haram investments, encouragement of risk sharing and financing is based on real assets. The concept of Islamic banking is open to facilitate the financial needs and services to both the Muslim and non – Muslim societies of which it offers

an alternative to the conventional banking system. Moussawi and Obeid (2011) added that the activities of Islamic banking stretch out in the notion that the lender is committed to sharing both the benefits and risks of the loan with the borrower. While operating on a profit and loss sharing mechanism, Islamic banking also ensures better social justice in the distribution of economic resources and wealth (Erusan and Ibrahim, 2007).

Upon delivering its underlying principles and practices of Shari'ah based, issues of product features and structures based on the customers' requirements in Islamic banking should be iron out accordingly. Facilitating the management of quality in Islamic banking products would in a way involve a tedious process. The analysis and translations of variable customers' behaviour into fulfilling the customers' satisfaction must be designed in such a way that it achieves the primary objectives of sustaining the upward growth trend. Development of taxonomies of quality tools in the light of Islamic banking product improvement can provide further understanding on differences of major functions in quality systems at various stages of management development (Yeung, Chan & Lee, 2003).

Identification of characterisations attributes from each taxonomy might help in structuring the methods that relates customers' needs with accompanying tool – support, which can contribute to the development of product improvisation in Islamic banking sector.

As for the starting point, adoption of quality tools in sustaining upward growth trend of Islamic banking would eventually lead to providing high quality products as well as services which can exceed the requirements of customers and create positive image. Application of an appropriate quality tools in focusing and coordinating customers' requirements in Islamic banking would not just allow adjusting the level of quality in the products and services rendered, but also create value (Mazur, 1993). Hence, in enabling much quicker respond to the needs and expectations of customers, incorporating Quality Function Deployment (QFD) in the Islamic banking system can help in formulating the quality criteria according to customers' preferences. Determining the products quality attributes through the calculation of technical significances and relationship matrix are parts of QFD methodology in regulating the sustainability level of growth trend in Islamic banking services. Emphasizing on analysis of the voice of customers is the essence of QFD and it demonstrates high prioritizations to the aspects of integration into every single business process. Maritan and Panizzolo (2009) also added that strategic QFD would create innovative strategies in

order to achieve an organization's vision and this is true to the fact that the Islamic banking industry's goals in socio – economic justice and equitable distribution of income.

## **PROBLEM STATEMENT**

Malaysia has becoming a hybrid market in the field of Islamic banking and it is crucial to sustain the customers' satisfaction norm in order to compete with the conventional banking system. Meanwhile, having the continuous products improvement in the Islamic banking sector is important in order to facilitate the sustainable growth trend. As such, deployment of appropriate tools that can be integrated into the Islamic Banking products development and improvisation is rather paramount so as to strengthen its function in fulfilling the maxims of Mu'amalah. However, the framework integrating QFD with the variables in Islamic banking is rather complex process, while there is also no specific QFD design to customize to each of the Islamic banking product development and improvisation.

## **RESEARCH QUESTIONS & OBJECTIVES**

1. What are the factors influencing the customers selection for Islamic banking products?
2. What is the most significant quality system and improvement tool in defining key components in improving banking instruments thus, sustaining the customer satisfaction of Islamic Banking?
3. How can a simplify Quality Function Deployment (QFD) tool to be integrated in the Islamic Banking practices?

4. To generate taxonomy for quality management system and improvement tools in identifying the key components in the products of Islamic Banking in Malaysia.
5. To develop the simplified Quality Function Deployment (QFD) technique in integrating financing instruments of Islamic Banking.

### **IMPORTANCE OF THE STUDY**

1. Provide concrete suggestions on how Islamic Banks in Malaysia can sustain its customer's satisfaction norm.
2. Provide significant insights to the management with regards to the optimization of resources in banking instruments performance.
3. Contributing knowledge and enhancement to the Islamic banking sector.
4. Contributing knowledge and enhancement to the quality system and improvement technology.

### **RESEARCH SCOPE**

1. This study is focusing on the full-fledged and window Islamic banks in Malaysia.
2. Discussions are from retail customers perspectives and Islamic banking practices.
3. Focus will be more on customers' perceptions area such as product concept and principle, governance, assets reliance and Shari'ah interpretations.
4. The groups of respondents that author focus on when collecting data are from the retail customers and Islamic banks management.

### **RESEARCH METHODOLOGY & FRAMEWORK**

Once the background and problem statement have been clearly identified, the next step in pursuit of the research process is to determine the type of theoretical and conceptual framework that should be outlined to obtain accurate and relevant data.

Descriptive research is appropriate to be undertaken in confirming the components in Islamic banking products that needs to be improved. This research design would effectively permit the researcher and the management team to have a correlation study in order to discover the associations among the variables. From thereon, taxonomies of quantitative quality tools such as Quality Function Deployment (QFD), Failure Mode Effect Analysis (FMEA), and Design of Experiments (DOE) will be generated and empirically assessed accordingly in order to suit to the Islamic banking industrial needs for products improvement.

As the author is embarking to his business research study for the first time, he definitely has to explore and obtain primary data in comparing findings from different studies and from different time periods to examine trends of Islamic banking growth issues. Preliminary interviews with few respective Islamic bank managers will be conducted in order to obtain preliminary insights. As for the secondary data, it can be obtained from the Central Bank of Malaysia Annual Reports, Malaysian Institute of Economic Research, and other published business reviews accordingly.

For the purpose of this research design, a pilot study is also recommended in this study and it will involve in-depth interviews using the pre-design questionnaire since they are ‘relatively unstructured, extensive interviews that encourage a respondent to talk freely and in depth about an undisguised topic’ (Zikmund, 2003, p.133). The interviews with the respondents would probably include the dimensions of retail customers’ perceptions and expectations pertinent to the usage of Islamic banking in their daily transactions.

At later stage, taxonomies of tools relevant to strategic analysis on improvisation will be developed and a new model based on Quality Function Deployment will be enhanced to suit the needs of Islamic banking in financing instruments improvisation. Against the backdrop of customer requirements Islamic banking technical aspects, the QFD remodelling will be adapted from Sahney *et al.* (2003), Gonzalez *et al.* (2008), and Gonzalez *et al.* (2011). These remodelling are factoring in three phases namely: identification of customer requirements through the ranking criteria, construction of the house of quality (HOQ) matrix and integration of customer requirements with product design specifications.

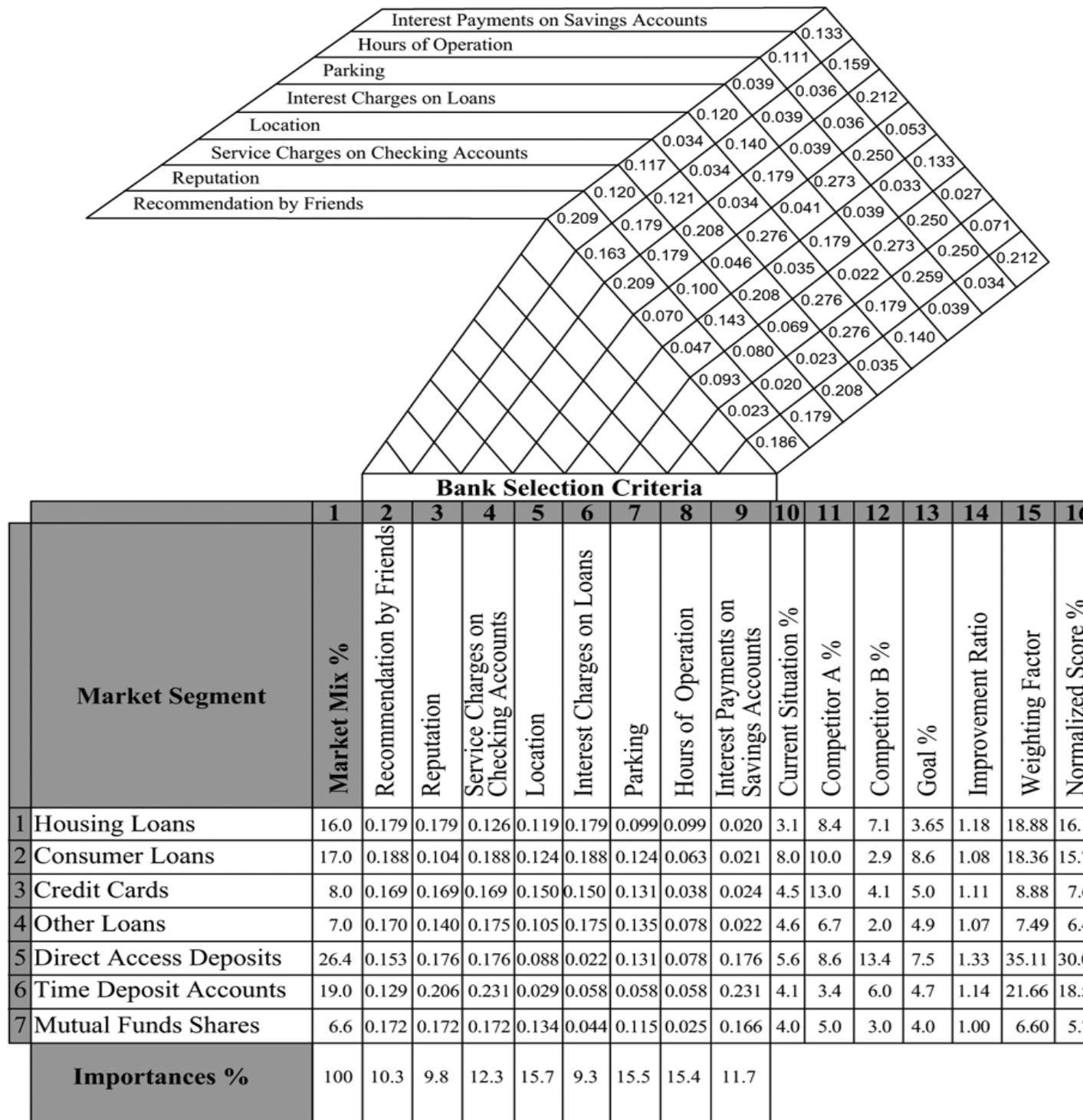


Figure 1: House of Quality for Conventional Banking.

Source: Kamvysi, K, Gotzamani, K, Georgiou, A and Andonikidis, A, *Integrating DEAHP and DEANP into the quality function deployment*, 2008, The TQM Journal

## **CONCLUSION**

This study is designed to determine the key components contributing to the financial products improvement of the Islamic banking in Malaysia. A comprehensive profile analysis will be done in order to get the actual data. Furthermore, all the key determinants that influence the contribution of Islamic banking customers' satisfaction such as principles, concepts, assets reliance, Shari'ah interpretation and governance factors will be investigated.

The development of the simplified Quality Function Deployment to suit Islamic banking products offering in Malaysia would in a way instil the level of confidence of the retail Islamic bank customers and eventually could capitalise bigger market share in the banking industry.

Therefore, a study needs to be undertaken in order to show that by developing a strong model based on Quality Function Deployment, a good vehicle in facilitating the financing products improvement and driving Islamic banking forward is being driven on a right track eventually.



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## **Trade Fair Participation as Internationalisation and Networking Instrument for SME**

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**Objectives:** The participation in trade fairs represents a neglected research topic in the field of entrepreneurship despite the fact that it plays a crucial role in the internationalisation and networking activities. An important burden for successful participation of young start-ups and smaller SME is the lack of special knowledge and financial means to prepare and realise successful fair participation. Wismar Business School developed together with the Association of the German Trade Fair Industry (AUMA) new concepts to support regional SME in trade fair participation. This concept is so successful that it gained the support of the regional Ministry of Economics and that it has been transferred meanwhile to other European countries.

**Theoretical Background/Previous Practice:** Traditionally trade fairs are considered as a powerful tool in marketing and business communication (Meffert 1993; AUMA 2012). In recent times this view has been enlarged by emphasising the role of trade fairs in



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internationalisation (Barthelt et al. 2007, 2008, 2010) and networking (Aspers and Darr 2011; Lurati 2011).

**Approach/Methods:** Based on this background Wismar Business School together with the Association of the German Trade Fair Industry developed a new SME-suitable fair consulting service which has been successfully realised and tested the last four years in cooperation with about 40 SME. The results of this paper are based on semi-structured expert interviews, qualitative and quantitative surveys and case study assessments.

**Results/Insights:** The paper presents the results of the four year experience of the fair consulting service of Wismar Business School for SME. The presented results highlight the strengths and weaknesses of SME in trade fairs and point out how the new fair consulting service helps to overcome barriers in an interdisciplinary approach and contributes to the internationalisation and networking activities of SME.

**Implications:** Trade fair participation is well known as a powerful marketing instrument for SME and newer research results show that trade fairs also play a crucial role in strategic marketing including the internationalisation and networking activities of SME. When it comes to realistic and feasible fair participation concepts for entrepreneurs it turns out that specific SME-suitable concepts are hardly to find. The research activities and results of the fair consulting project of Wismar Business School developed new SME-suitable trade fair participation concepts which are successfully tested and oriented according to the needs of entrepreneurs.

## 1. Abstract

Trade fairs play an important role in marketing and business-to-business communication but it has been a neglected research topic in the field of internationalisation and networking of SME. An important burden for successful participation of young start-ups and smaller SME is the lack of special knowledge and sufficient financial means in combination with missing awareness about existing strategic deficits to be able to prepare and realise successful fair participation. Wismar Business School developed together with the Association of the German Trade Fair Industry (AUMA) new concepts to support regional SME in trade fair participation. This concept is so successful that it gained the support of the regional Ministry of Economics and that it has been transferred meanwhile to other European countries.



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One important reason for the new approach of Wismar Business School was based on the fact that the existing fair participating concepts are only partly oriented on the needs of the SME sector and recent research results show that more SME-suitable fair participation concepts are necessary. The results of the newest AUMA trade fair survey reveal that SME are underrepresented in trade fairs and that their fair budgets are significantly lower than the average (AUMA 2012). Furthermore, due to financial pressure and economic frame conditions a number of companies are planning to cut their fair budgets and to reduce the occupied space of their fair stands in the future. In order to keep the success and the effect of trade fair participation new concepts are required. So Wismar Business School together with the Association of the German Trade Fair Industry developed a new SME-suitable fair consulting service which is based on an interdisciplinary approach including business experts, designers and entrepreneurs. In order to find a realistic and feasible fair participation concept for each SME an individual fair benefit check safeguards an optimal output of the fair budgets according to the strategy of the SME.

The paper presents the results of the five year experience of the fair consulting service of Wismar Business School for SME based on semi-structured expert interviews, qualitative and quantitative surveys and case study assessments. The presented results highlight the strengths and weaknesses of SME in trade fair participation and point out how the new fair consulting service helps to overcome barriers in an interdisciplinary approach and contributes to the internationalisation and networking activities of SME.

**Keywords:** Trade Fairs, Marketing, Networking, Internationalisation, Entrepreneurship

## 2. Introduction

Business development can often be characterised by passing through different stages where in the literature different models and theoretical concepts for those business life cycles are discussed. All proposed business life cycle models have in common that the transition periods between touching stages are representing a crisis which the company has to traverse (Lester et al. 2003). However, launching a start-up does not mean that it is guaranteed to be able to enjoy the experience of a full business life cycle because during the start-up phase less than 67% of all SME and start-ups survive the first two years and less than half of the companies

will survive the four year period (Headd 2003). This is one reason why in entrepreneurship research the first stages of business development enjoy special attention.

However, even those companies which survive their start-up phase have to pass and stand a crisis if they want continue growing. By following the five phase business cycle model of Greiner the first growth phase can be characterised by growth through creativity and leads to a crisis of leadership (Greiner 1972). By taking a closer look to the failed start-ups the experiences during the four year period of our trade fair consulting project are in line with nearly all known studies identifying the same reasons namely financial problems, market problems, strategic wrong decisions and lack of entrepreneurial skills (Egeln et al. 2012). Another important aspect of entrepreneurship is that it does not take place in isolation; it rather occurs in interaction with different players such as companies, universities and public institutions (Jacobsson, 2002; Hekkert et al., 2007). This is the main idea behind the Innovation System approach, which stresses networking concepts as success factors behind innovations and entrepreneurship stating that innovation and entrepreneurship are both individual and social activities, resulting rather from interactions and networking than from individual actions. This aspect had a high relevance in our fair consulting project because the region around Wismar Business School can be characterised as a rural area with a rather isolated SME – sector which is remote from Berlin and Hamburg regions and where trade fairs represent by far the most important networking tool for entrepreneurs to turn the potential of new knowledge and markets into new business opportunities.

Finally, it must be mentioned that all discussed entrepreneurial issues can be supported by internationalisation activities which are strengthening the competitiveness and the growth of the SME. In the EU study “Internationalisation of SME in Europe” it was shown that there are various activities of internationalisation including import and export, FDI, international cooperation and transnational subcontracting of SME which all have a positive influence on the business performance (EC 2010). The study was able to reveal a positive correlation between the level of international activities of SME and the growth of turnover and employment. Another important result was that international active SME tend to be more innovative than only national acting companies.

Trade fairs are important events since they represent market models concentrated temporarily at one geographical place allowing exchange of marketing and networking information but also supporting interactive communication and learning as well as knowledge creation. Historically trade fairs have been considered as a key instrument in marketing and



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communication (Schuldt and Bathelt 2011, 2010; Meffert 2003). An important additional aspect is that a lot of trade fairs are organised as international fairs, placed in the context of export promotion in order to support foreign market entries and thus help exporters to develop contact with clients, competitors and their target markets (Seringhaus and Rosson 1998). Thus international trade fair participation assists companies to realise their learning strategies, to improve their competences, and to increase their networking and internationalisation capacities.

Germany enjoys a special role in trade fair business because it represents the No. 1 worldwide in the conduct of international trade fairs. Around two-thirds of all leading global trade fairs are held in Germany with annually around 150 international trade fairs and up to 170,000 exhibitors and up to 10 million visitors. The most important positive feature of the German trade fair business is its internationality with more than half of the exhibitors coming from abroad where one-third of the foreign exhibitors come from countries outside Europe. Comparable figures apply to the fair visitors where almost 20% come from abroad and about 30% of the business people among the fair visitors are foreigners (AUMA 2007).

For the German companies, trade fairs are among the most important instruments in business-to-business communication. Around 59,000 German companies are active in the business-to-business segment, of this total, 49% are involved in manufacturing industry, followed by service providers (33%), trade (16%) and handicraft (2%). With respect to the number of employees of exhibiting companies SME are dominating: the share of exhibitors with less than 50 employees is 53%, exhibitors with 50 to 499 employees account for a further 32%. The level of sales of the companies also reflects the SME structure of the exhibiting industry. Thus 40% of companies have sales of under € 2.5 million and further 37% sales of € 2.5 to 50 million (AUMA 2012).

However, there are not only significant differences between branches when it comes to trade fairs, also the size of a company influences the trade fair behaviour. Studies reveal that larger German SME with an annual turnover of more than € 50 million are highly fair active with about 16 fair participations within two years whereas SME only participate biannually in six fairs. As a consequence, it can be stated that also the fair participation budgets depend heavily on the company size, i.e. 25% of the larger companies with more than € 50 million turnover enjoy a biannual fair budget of € 500,000 whereas SME spend only around € 25,000 for biannual fair budgets (21% of the SME only up to € 25,000). With this frame conditions it



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is no surprise that the average budget per fair for a SME is € 42,500 compared to € 181,500 for a large company (AUMA 2012).

### 3. Objectives

Traditionally trade fairs are considered as a powerful tool in marketing and business communication (Meffert 1993). Companies continue to regard trade fairs as an important tool in their business-to-business communication, more important than “personal sales”, as well as “direct mail” and “advertising in trade journals” (AUMA 2012). In addition to business communication the attraction of new customers and cultivating contacts with regular customers are the primary objectives of exhibiting companies, this includes also improving the company’s image and increasing brand awareness, as well as the introduction of new products. Other objectives of trade fair participation are opening up new markets and market research as well as concluding business deals (AUMA 2007).

Trade fairs possess a special importance for procurement processes because surveys bring to light that almost every second person who prepares buying or investment decisions for a company, makes use of the visit to trade fairs. The share of managing directors, board members or self-employed business people among trade visitors is 30%, among the foreign visitors it is nearly 50%. The share of decision-makers among all visitors is more than 60%. Foreign visitors have above-average decision-making competence: three-quarters have a decisive or co-decisive influence emphasising the international aspects of trade fair business (AUMA 2007).

So it is not a big surprise that in recent times this view has been enlarged by emphasising the role of trade fairs in internationalisation (Barthelt et al. 2007, 2008, 2010) and networking (Aspers and Darr 2011; Lurati 2011). The existing fair participating concepts are only partly oriented on the needs of the SME sector and newer research results show that more SME-suitable fair participation concepts are necessary (Venesaar et al. 2012). Based on this background Wismar Business School together with the Association of the German Trade Fair Industry developed a new SME-suitable fair consulting service which has been successfully realized and tested in recent years.



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The participation in trade fairs represents a neglected research topic in the field of entrepreneurship despite the fact that it plays a crucial role in the internationalisation and networking activities. Trade fairs are test markets for the acceptance of products ready for the market as well as for prototypes and design studies. In particular, smaller and medium-sized companies benefit from a trade fair because their innovations attract more interest in the spotlight of a trade fair than otherwise. Almost 90% of the exhibitors at German trade fairs want to present innovations; only the winning of new customers and the increase of the awareness of companies and products (92% and 90%) is more important for the exhibitors (AUMA 2007).

Start-ups need contacts to potential customers, sales and service partners and platforms for the public presentation of their products and their company. They can achieve all this directly by participating at a trade fair. That is why 70% of the companies which have not been on the market for more than 4 years believe that trade fairs are important or very important for their business-to-business communication (AUMA 2007).

However, surveys reveal that an important burden for successful participation of young start-ups and smaller SME is the lack of special knowledge and financial means to prepare and realise successful fair participation. Wismar Business School developed together with the Association of the German Trade Fair Industry (AUMA) new concepts to support regional SME in trade fair participation. This concept is so successful that it gained the support of the regional Ministry of Economics and that it has been transferred meanwhile to other European countries (WM MV 2009).

#### 4. Methods

In a study of Wismar Business School in 2008 realised in cooperation with the regional Ministry of Economics and the regional business chambers the trade fair participation behaviour of regional SME in the German state of Mecklenburg-Vorpommern was assessed in order to find out how trade fairs influence business success. The results of the survey were based on around 600 filled questionnaires which the SME sector returned. The study revealed that only 55% of the respondents enjoyed experience in fair exhibitions and 85% of these companies had the intention to participate again in trade fairs within the next two years whereas the remaining 15% had no intentions to continue to be present at trade fairs due to high costs and low results in fair participation. Those companies were among the most



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important target groups for the fair consulting project in order to bring them back and to bind them to the trade fair business.

Another observation of the survey was that trade fair participation seems to have a positive influence on SME development because 75% of the fair active SME enjoyed foreign sales and the share of export turnovers of fair active SME is about twice as high as the export turnovers of SME which are not fair active. Generally fair active SME make twice as high use of marketing and sales instruments compared to the non-exhibitors, indicating that the marketing budgets of exhibiting companies is significant higher. Furthermore, the study revealed that fair participation as a marketing tool is heavily dependent on company size and business sector.

Among the fair-inexperienced SME the main reasons for not taking trade fairs under consideration were named the size of the company, the too high participation costs and the preference of other marketing tools. Additionally, the survey brought to light that a significant number of the fair inactive SME possess the skills to become an exhibitor but due to dominating operative and technical thinking of the entrepreneurs and due to lacking or underdeveloped marketing strategies as well as market orientation these SME which are very often in the first phase of their entrepreneurial development are often underestimated and neglect the chances of trade fair participations (WM MV 2009).

As a consequence of the results of the trade fair study at Wismar Business School it was decided to start a trade fair consulting project supporting regional SME to increase their appearance and efficiency in national and international fairs. Due to the survey results the main target groups for the fair consulting project was the group of 15% fair experienced SME with no intentions to continue their presence at trade fairs and the group of fair-inexperienced SME. In the meantime a comparable survey was conducted recently in Estonia which led to comparable results like in Germany (Venesaar et al. 2012).

The fair consulting service is based on a 1 – semester seminar whose curriculum was developed in cooperation between Wismar Business School and the Association of German Trade Fair Industry (AUMA). During a seminar for business and design students a creative concept for the participation in trade fairs should be developed. Next to the professional assistances from university professors also external experts for trade fair consulting were involved. The target group for the fair consulting project were companies which were non-



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active in trade fairs and which were approached with advertising campaigns and individual contacts of the chamber of commerce.

Each year since 2009, eight to twelve SME which are willing to start trade fair activities are selected in a competition. For each enterprise a mixed team of business and design students prepares a fair concept. The students of business administration are responsible for the development of business plans; the students of design have to create and to develop the visual presentation at the trade fair. The students from the faculty of design were integrated into the course already from an early stage at the beginning of the practical phase. Students of both disciplines have different points of view on communication and way of working. This study approach, based on interfaces, is of great importance also for the prospective graduates, since many business concepts have design elements but, in practice, fail often due to communication problems.

The lectures during the seminar were adapted occasionally during every semester but were structured basically in the following way.

1. Theoretical background

In a first step, the basic theoretical background of distribution management was presented in the form of lectures. Afterwards the trade fair management from the exhibitor's point of view was analysed in the context of a holistic marketing concept.

2. Briefing for the advisory task

During a kick-off event the participating companies and students were introduced and roles were specified. Officials from the financing institutions presented their objectives and intentions.

3. Teaching of concept-based practical knowledge

By the representative of Association of the German Trade Fair Industry (AUMA) the students were taught theoretical marketing knowledge about fair management from the exhibitor's point of view. The focus hereby was on the concept-based issues regarding business objectives and implementations of strategic and operational approaches for development of the holistic exhibition concept. An important



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instrument for evaluation is the fair-benefit-check since most of the companies argue with too high costs compared to the benefit of the fair participation.

4. Presentation of the fair project planning and relevant social and communication competence

The external consultant gave an introduction to the operational basics of fair project planning. Key stones of the project planning are the development and application of to-do-lists. Furthermore, crucial aspects of communication theory are shown which is relevant for a productive consulting of the students and ensure a successful fair participation of the companies.

5. Visit at a regional trade fair

In order to give an insight to the reality of trade fairs the students went to a selected regional trade fair. Many students have not had any trade fair experience before. At the trade fair the students should collect impression of the behaviour of the exhibitors as well as the visitors. Main focus laid on the communication behaviour of the employees at the trade fair stands and the graphic presentation of these. Best practices which raise the attention and communication are selected as well as bad examples for lacking holistic approaches in the presented concepts.

6. Consulting for the companies

The first step was to decide whether a fair participation can be useful or not. In this evaluation it is very important that the students decide rationally, also a negative result was possible. After that the students started a consulting with the definition of the individual problem of the company. During a visit at the company the students were able to clarify under which circumstances participation would be easeful. Since the capital investment for a positive decision is a very crucial factor a quantitative fair-benefit-check was conducted very carefully.

The second step was to develop the fair project planning. Through a desk research suitable trade fairs were selected and additional information material was collected by the students. In this project the main focus was on the definition of operational objectives as well as the trade fair preparation, execution and evaluation. The exhibition concepts can vary according to the individual needs and possibilities of the company. For instance, in some cases trade fair handbooks were prepared which describe the whole trade fair process in detail and which can be used practically by the employees of the company. The content of these manuals are also very individual

as it can be address data bases of (potential) customers, applications for additional funding, prepared letters to contact customers and visitors, as well as forms for collection and evaluation of customer contacts during and after the trade fair.

Furthermore, the design students developed a graphical presentation of the stand at the trade fair. An assessment of the appearance in the relevant trade fair environment was one aspect in this process. In order to guarantee the holistic view on this process also the economic students were integrated which assessed the operational rationale.

#### 7. Final presentation

At the end of the seminar the students presented their results in a final event. All participating institutions were invited and as well as the company representatives. However, the individual results of the student teams were presented more in general in order to ensure that no company internal information is made public. The detailed information as well as the trade fair handbooks are handed over to the companies afterwards.

The project is supported by the Ministry of Economics of the State of Mecklenburg-Western Pomerania with money from the EU Social Fund and starting from autumn 2012 the fair consulting project will be continued to its fifth year of existence.

## 5. Findings

The findings about the fair consulting project are based on semi-structured expert interviews, qualitative and quantitative surveys and case study assessments within the four year history of the project including about 40 SME. The survey of Wismar Business School in 2008 revealed that trade fair participation seems to have a positive influence on SME development because 75% of the fair active SME enjoyed foreign sales and the share of export turnovers of fair active SME is about twice as high as the export turnovers of SME which are not fair active (WM MV 2009).

This result is in line with a representative German studies which brought to light that the average share of export turnover among German fair exhibitors is about 30% whereas non exhibiting companies only reach 13% (AUMA 2005, 2009). This result is even more



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significant for SME since fair active SME which are participating in foreign fairs enjoy export rates between 52% (in the case of participation in one foreign fair) and 59% (in the case of participation in two to four fairs). Especially 41% of these SME state that they have increased or stabilised their export share by trade fair participation (AUMA 2010).

The companies which participated in the fair consulting project at Wismar Business School are mainly small and very small businesses and do not have any experience in trade fair participation. Furthermore, only a small percentage of these companies acts marketing oriented in their daily business due to capacity limits of their personal, time and capital resources. Holistic strategic objectives are more or less not existent so it is no surprise that our research work confirmed that market and strategy related issues are playing the major role for failures of start-ups which is in line with other investigations (Egelin et al. 2012).

Another important fact in our project is that a conservative consulting by a professional consulting company would be too expensive for the small budgets of these companies. In the fair consulting project the companies do not pay any fees neither to the students nor to the professors and experts involved. Nevertheless the average budget per fair of a participating SME in the project lies between € 5,000 and 6,000 and whereas the public aid from the regional Ministry of Economics with up to € 10,000 has to be taken under account. So within the fair consulting project the companies get detailed and professional consulting plus public support per fair. By comparing the budgets of the fair consulting project with the figures from AUMA it can be estimated that the value of the fair consulting service of Wismar Business School ranges around € 25,000 per SME and fair (AUMA 2012).

The given concepts do not only include trade fair specific elements and operational measurements but also a strategic view on the current status of the whole company. According to the process of the trade fair consulting project the operational expectations on the fair concept are not arbitrary but are oriented strongly on the individual company vision and strategy. Through a defined company vision and strategy the company is able to be present at a trade fair and to attract potential customers. The marketing theory named the whole presentation “corporate identity” whereas the presentation at a trade fair is only a small part of the whole process.

Additionally to the strategic consulting also operational measurements are done for the companies. The students assist in preparing the trade fair participation with customer research, market analysis as well as new and updated design elements, i.e. logos, letter heads, and business cards.

Another advantage of the free student consulting is the fact that the students act independently and argue very honestly the given problem. In conventional consulting service

contracts the consultant tend to argue not freely enough to provide an independent analysis since a lot of money is involved and decisions should be made in favour to the paying partner. As an academic institution a rational opinion is the only one which can be accepted, despite the expectations of the participating company.

Already in the first year of implementation of the fair consulting project a positive evaluation can be given. For almost all participating companies valuable results can be described. After collecting feedback from individual talks with company representatives (e.g. northbit GmbH, LTA Anlagentechnik GmbH) it turned out that three companies which have never participated in any trade fair before will do this in future. Two companies of ten decided not to cut their trade fair budget but will continue in participating with the new proposed trade fair concept. A very successful indicator is that half of the companies will even enlarge their trade fair budgets and will focus more on international trade fairs. Through the trade fair consulting service these companies were able to reduce their individual entry barrier to trade fairs for foreign market participation.

Meanwhile the concept was transferred to other European universities. One aspect of transferring the concept to universities and SME abroad is the strengthening of the trade fair market in Germany. Many small companies act already successfully on national markets but lack in experiences for exporting in foreign markets and international trade fair participation. Through the participation at trade fairs which are dedicated to the German (export) market the companies get the relevant knowledge for entering this markets in future successfully and independently. Next to the economic relevance also the academic development of students in international context is very beneficial for participating universities and graduates who are potential new managers of foreign SME.

## 6. Conclusions and outlook

Participation in trade fairs of young start-ups and smaller SME represents an underdeveloped research topic in the field of entrepreneurship and not too many comparable results are available. Nevertheless there is no doubt that trade fair participation plays a crucial role in internationalisation and networking activities for SME. Research work reveals that an important burden for successful participation is the lack of special knowledge and financial means to prepare and realise successful fair participation. The fair consulting service at Wismar Business School represents a new SME-suitable concept for trade fair participation which has been successfully tested and has been transferred meanwhile to other European countries like Austria, Turkey, France and Estonia because it helps to overcome barriers in an interdisciplinary approach and contributes to the internationalisation and networking activities of SME.



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Despite the facts that the fair consulting project started only four years ago the first research results are showing that it is possible to support SME in their appearance in trade fairs to let them benefit from networking and internationalisation opportunities by a sophisticated consulting service. Since Wismar Business School is focussing on young SME which are representing the group of non-exhibitors with small marketing budgets and underdeveloped marketing strategies the first evaluations brought to light that the participating SME were able to reach their fair objectives successfully and about two-third of them moved to the group of trade fair active companies which will continue to be future exhibitors.

Furthermore, the empiric activities brought to light that successful fair participation is the right mix of an optimal preparation, a dedicated implementation of the fair concept and an intensive follow-up process. Until now the design related component of the fair consulting service has not been assessed but will be one of the main targets for the near future because the visualisation of the developed fair and marketing strategies for the SME and the transfer of the strategies and concepts into design concepts and fair stands plays a crucial role for the success of trade fair appearance.

Another important question is the development of appropriate and suitable trade fair strategies and concepts depending on the current company life cycle and specific company crisis. Trade fair participation is a powerful instrument for SME but when it comes to concrete and feasible fair participation concepts for entrepreneurs in specific situations appropriate SME-suitable concepts are hard to find. Here further research activities around the fair consulting project at Wismar Business School will be executed. One important point of the fair consulting project is that next to the economic relevance also the academic development of students in an international context is beneficial for all participating universities and graduates who will be upcoming managers of SME.

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## THE IMPACT OF GENDER, ETHNICITY AND RELIGIOSITY ON PERSONAL NETWORK AND GROWTH ASPIRATIONS OF ETHNIC MINORITY FEMALE ENTREPRENEURS

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### Abstract

We explore and explain critically the variations in the composition and contents of personal networks of British born (second generation) Pakistani female entrepreneurs and their aspirations for business growth. Variations in the opportunity structures and environments occur as a result of the exposure to and integration with normative patterns of host society culture and the absence of traditional barriers, such as those of language and education. Therefore, second-generation minority entrepreneurs are “voluntary entrepreneurs” (Sahin, Baycan-Levent and Nijkamp, 2007). Choice and preferences are determined by greater opportunities, information and resources generated through the wider network of relationships (Brush et al. 2004; Zimmerman and Zeitz, 2002; Lee and Tsang, 2001). We focus attention on the impact of ‘gendered networks’ on the growth prospects of business of second-generation Pakistani female entrepreneurs and explore the phenomenon using qualitative egocentric network analysis. We find that personal networks are a product of gender and religion having a deep impact on the conceptions of growth.

**Keywords:** *Ethnic Minority Female Entrepreneurs, Personal Network, Ego-Centric Network Analysis, Pakistani female entrepreneurs*



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## Introduction

In the last decade the ethnic minority entrepreneurship research agenda has shifted from investigations about immigrant entrepreneurs to second generation entrepreneurs. This change is due to the recognition of ethnic heterogeneity that is often exhibited by way of the generational differences within ethnic groups. Different generations within an ethnic group demonstrate profound differences in entrepreneurial intentions (Sullivan *et al.*, 2009), motivation (Levent *et al.*, 2003, Rusinovi, 2006), choice of business sector (Gersick, 1997) and growth aspirations (McGregor and Tweed, 2002; Kourilsky and Walstad, 1998). These differences are the outcome of the interaction of second generation communities with the host society's culture coupled with the openness of opportunity structures which are different to those understood or experienced by their immigrant counterparts (Peters, 2002; McPherson, 2010).

The deficit model of ethnic minority entrepreneurship, where the notion of 'disadvantage' prevails over all others, is overstressed in the academic literature. Ethnic minority women, in particular, are "presented as double-disadvantaged" (Alexander and Moore, 1992 cited in Jones, McEvoy and Ram, 2010) because of their association with the disadvantages attributed to ethnicity (minority groups) and gender. This view overlooks the diversity within ethnic groups and differences in gender roles, resulting in a failure to comprehend the unique experiences of ethnic minority women. Second generation entrepreneurs, born of migrant parents, have exposure to normative patterns of host society culture and the due to the absence of traditional barriers, such as those of language and education, they cannot be regarded as being 'pushed' into self employment (Sahin, Baycan-Levent and Nijkamp, 2007). Furthermore, ethnic minority-owned enterprises are considered to be 'low growth oriented' because ethnic minority entrepreneurs start the venture to fulfil their economic needs but upon attaining the desired, economic and social status their motivation to grow their business ceases (Brush *et al.*, 2006). Even intuitively this apparent limitation cannot be taken as an overarching view of the growth orientation of ethnic minority entrepreneurs because of the variations in motivations, choice of business and growth aspirations of second generation ethnic minority entrepreneurs (Rusinovic, 2006; McPherson, 2010). The varied social realities of their blended business and personal lives have a bearing on their aspirations, motivations and on the opportunities that they face. We, therefore, explore how ethnic minority second generation women entrepreneurs construct their social realities, instead of adopting the traditional approaches in the literature based on notions of disadvantage and marginalisation.

Second generation entrepreneurs' social interactions with the external environment and members of the society help them to form a network of relationships. However, such an interaction often takes place with some preconceived notions of and assumptions about 'others'. Decisions on who to interact with and form relationships constitute subjective phenomenon necessitating an understanding of the meanings attached to relationships in the



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network. This paper emphasizes the context which shapes the voice of respondents and the social interactions through which ethnic minority women entrepreneurs construct their experiences. These voices are articulated through kinship, friendship and business or professional contacts where different choices are made as a result of gender-specific and religious preferences. We aim to generate an understanding of how ethnic minority women entrepreneurs view themselves and experience their circumstances as women belonging to a particular ethnic group. The challenge is to tease out possible meanings and attach proper significance to the pluralistic context to generate research outcomes by deviating from the traditional approaches within the field of ethnic minority entrepreneurship,

### *Defining the second generation entrepreneur*

The term ‘second generation’ entrepreneur has many connotations in ethnic minority entrepreneurship literature. In the family business context second generation entrepreneurs refer to those who take over enterprises of their fathers (Faraboni and Saltstone, 1990). In the migration context the term refers to new bands of migrants from a country (Rušinović, 2006). It also refers to people born of immigrant parents in the host country (Sahin, Nijkamp and Baycan-Levant, 2007). Sahin, Baycan-Levent and Nijkamp (2007) term second generation entrepreneurs as “voluntary entrepreneurs” because they have a vast array of opportunities, information and resources generated through their wider social network as compared to their immigrant counterparts who are described as “forced entrepreneurs”, and who are generally bound to their ethnic network. Others use a deficit model (disadvantage theory) to describe second generation entrepreneurs who are confined to low threshold markets despite being well educated and being aware of the host society environment (Oc and Tiesdell, 1999; Rusinovic, 2006; McPherson, 2010). From this perspective a number of studies see self-employment as an alternative to constrained paid employment opportunities (Portes, 1997A more robust differentiation of the immigrant first generation from the second generation is proposed by Portes and Rumbaut (2001:350) who state (with reference to communities in the United States) that, “when referring to the ‘first generation’ scholars commonly have in mind persons socialized in another country who migrate as adults, while the ‘second generation’ refers to U.S. born offspring”. We follow Portes and Rumbaut (2001) and various other studies differentiating and defining first (immigrant) and second generation entrepreneurs, to assist us with the selection of the sample for our study.

### *Networks of second generation ethnic minority entrepreneurs – Evidence from literature*

Migrants become self-employed because they know they can rely on strong family and kinship networks for their economic well-being (Tolciu, 2011). For minority businesses the role of networks is crucial as many of these businesses rely on co-ethnic support, for both financial and non-financial reasons (Iyer and Shapiro, 1999). A growing number of second generation entrepreneurs have caught the attention of researchers who focus on the role of their network of relationships. Rusinovi’s (2006) comparative study of first and second



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generation Dutch entrepreneurs revealed that first generation (immigrant) entrepreneurs rely mainly on informal networks to acquire resources as opposed to their second generation counterparts. In order to explore the generational aspects of family businesses, McPherson (2010) focused on comparing second generation entrepreneurs from family and non-family businesses. He notes that second generation South Asian entrepreneurs make extensive use of formal, informal and virtual networks in their businesses while keeping their community contacts separate from their business contacts. Second generation entrepreneurs maintain their own distinct network distinct from those of their parents (first generation) (ibid). Such comparative studies *clarify the differences* in network structure but do not explain the *underlying factors* differentiating the network dynamics in different contexts.

### ***Impact of contextual factors in shaping the network***

Individuals in various contexts form and maintain networks of relationships in their own, unique ways. Their networks do not only facilitate the social and economic processes; they become the source of rich contextual information and social phenomena (Fischer, 1982: p. 4). They bring their personal experiences, beliefs and resources to the network of relationships. Personal experiences, shaping personal networks, are shaped by numerous factors most importantly gender and belongingness to an ethnic group.

Socially constructed gender roles play an important role in determining the network characteristics of men and women. The size of networks and the time spent on networking for men and women has been found to be the same (Aldrich, Reese and Dubini, 1989). However, there are differences in the composition of such networks, their use, the methods of accessing the ties and the perception of relations in the networks (Aldrich, Reese and Dubini; 1989, Stackman and Pinder; 1999; Verheul and Thurik, 2001). Such differences are found to be greater in developing countries context. A man is likely to spend his time in public places with his male friends, while his wife visits her female friends at their homes (Bastani, 2007; Lomnitz, 1982). This narrows the networking sphere and opportunities for women. In general, the network perspective helps us to understand critically the impact of socially constructed gender roles on entrepreneurial activity in specific contexts.

### **Socially constructed gender roles in ethnic groups**

Gender based differences in the networking method and the network itself are attributed to the social context that assigns particular roles to men and women. In an attempt to measure the variations in the economic activity of Bangladeshi and Pakistani business women in Britain, Salway (2007) notes that “*socio-cultural construction of gendered identities among these ethnic groups locates a married woman firmly within the domestic sphere*” (p.826). South Asian women prefer a so-called ‘domestic role’, however, “*such ‘preferences’ are constructed within particular socio-economic contexts*” (ibid: 825). These constructions differ in varied social contexts generating asymmetrical and differentiated outcomes for



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network of relations of women. The ‘ethnic effect’ for ethnic minority women entrepreneurs are less pronounced when compared to the contested negative ‘gender effect’ (Kwong et al, 2009).

Socially constructed gender roles in particular ethnic contexts add to the complexity of networks of ethnic minority entrepreneurs. Here notions of kinship impinge on the conceptualization of networks of ethnic minority entrepreneurs. The ethnicity of female entrepreneurs adds a different flavour to this conceptualization. Gender roles are constructed differently in various ethnic groups and kinship is afforded in these groups in very distinctive ways. In the case of ethnic minority women, who rely mainly on the support from men for obtaining resources from the environment, their network consists of family members (kin), mainly (Bastani, 2007). In the case of starting a business, family and friends are involved in providing labour, capital, information and social support for female entrepreneurs (McGowan and Hampton, 2007) however their role for the growth aspirations remained relatively under-researched.

From the existing literature on networks of second generation ‘ethnic’ entrepreneurs we observe that:

- 1) generalisations from networking patterns and behaviour covering all second generation entrepreneurs and other ethnic minority groups ignore the particular cultural/ethnic networking behaviour of each group because networking practices may vary according to the different cultures of each group. In order to acknowledge the significance of heterogeneity, ethnic groups should not be treated as being homogenous for the purpose of policy development and research (Bastani, 2007; Batjargal, 2007; Kourilsky and Walstad, 1998). There is a need to explore networks of each ethnic group independently; and
- 2) there can be varying reasons for a shift in the networking practices of generations including changes in the importance attached to ethnic identities and belief systems. The importance of an ethnic or a religious identity itself is dependent on a sense of belonging to an ethnic group. To this extent the existing body of research lacks such a conceptualization of networks of ethnic minority entrepreneurs.

### ***‘Choice’ perspective to study the network of ethnic minority female entrepreneurs***

The ‘disadvantaged’ and ‘culturalist’ perspectives of ethnic entrepreneurship assume that entrepreneurship is the function of a marginalized position or an inherent cultural trait of ethnic minority groups in host societies (Davidsson, 1995; Wilson and Portes, 1980; Light, 1972; Portes and Bach, 1985; Waldinger, Aldrich, & Ward 1990; Ram & Deakins, 1995). These perspectives are based on static assumptions of fixed behaviour of ethnic minority entrepreneurs which disregard the dynamism brought in by the younger generations to ethnic minority entrepreneurship. The culturalist explanations take ethnicity as a form of cultural disposition of minority entrepreneurs that is ingrained in their inflections regardless of spatial, temporal and contextual variations. Such a static stance ignores the evolution of ethnic boundaries in pluralistic societies for different generations (Barth, 1969). Younger



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generations, born of immigrant parents, may join self employment but they do not face the barriers faced by immigrants such as language, restricted access to local resources, and awareness of markets. Furthermore, they are a hybrid generation mixing cultural values inherited from their parents with influences borrowed from the host society in which they have been born, resulting often in a blurring of kinship ties but a reinforcement of friendship or more arms-length business ties. The inherent dichotomy of a minority ethnic identity and a minority presence in a ‘host’ society puts pressure on social and ethnic boundaries while the fluidity of ethnic boundaries invalidates assumptions made by theories.

In comparison to the fixed notions referred to above, there are emerging perspectives that take into account the dynamic nature of entrepreneurial behaviour among ethnic minority entrepreneurs. Campbell (1992) offers a “choice” perspective according to which second generation entrepreneurs have the choice to join paid or self employment based on the comparison of benefits of both. Janjuha-Jivraj and Wood (2002) forward the ‘choice’ perspective by suggesting that second generation have wider career options in comparison with immigrants because of their exposure to employment and entrepreneurship opportunities.

In order to generate an understanding of the influences of personalised contextual factors on the network of relationship leading to (no) growth aspirations of entrepreneurs, there is also a need to take into account the perspective of individual female entrepreneur to appreciate the meaning making process. Selecting the entrepreneur as the protagonist can produce interesting results with regard to the entrepreneur’s perceived or actual relationships, with all network members (referred to as ‘alters’<sup>48</sup> – in the remainder of this paper) that influence her growth aspirations. Therefore, we adopt a choice perspective to investigate the personal networks of ethnic minority female entrepreneurs and growth orientation.

### **Personal network of second generation ethnic minority female entrepreneurs**

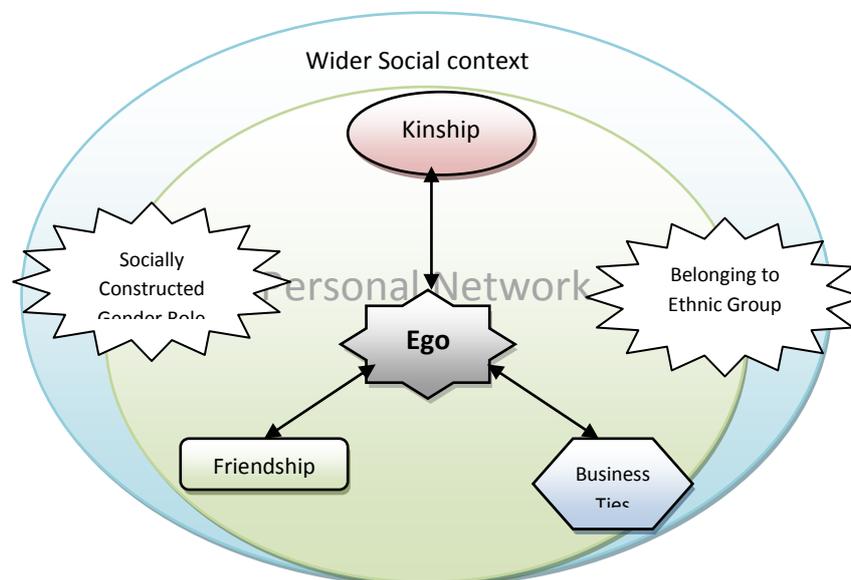
A focus on the individual entrepreneur, (the individual as the unit of analysis) for studying networks necessitates the deployment of the concept of ‘personal networks’. Personal network studies investigate the network relationships of the entrepreneur from her point of view (Jack and Anderson, 2002). The personal network approach to entrepreneurship regards the entrepreneur as being embedded and dependent actors (Aldrich and Zimmer, 1986). Such a network perspective can help us appreciate the peculiarity of the gender dimension and sensitivity to the generational differences, based on ethnicity and gender within specific communities, particularly Pakistani business communities. It also helps us to grasp the motivations for self-employment alongside the growth aspirations of Pakistani female entrepreneurs.

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<sup>48</sup> ‘Alter’ refers to network members in sociological literature on social networks. This paper uses ‘alter’ to signify people an entrepreneur is connected to. Diverse ties in the network of Pakistani female entrepreneur are termed as ‘alters’.

The choice perspective helps to conceptualize the ‘personal’ network as the mode of choice of entrepreneurs to maintain a specific set of relationships with relatives, friends and business associates (Hall and Wellman, 1985). It enables us to investigate the network relationships of the entrepreneur from her point of view. Figure 1 provides a diagrammatic explanation of the confluence of gender roles and ethnicity factors that shape the dynamics of personal networks.

Figure 1  
Impact of Gender and Ethnicity on Personal Network



The interaction of gender and ethnicity in ethnic minority entrepreneurs has a significant impact on their personal network formation and its use. Their network formation and use is subject to the social conventions and requirements of their socially constructed, traditional gender roles. Generally, ethnic minority entrepreneurs use their network in the host country to extract social and economic resources, to obtain information about the new surroundings, and to assimilate and integrate in the host society. However, the composition of a personal network and its use varies across different ethnic minority groups. The interaction of gender, ethnicity and generational differences does not always produce the same results in all contexts. These factors not only affect the formation of personal network but make it evolve over time. Intergenerational differences in the personal network offer the opportunity to impact of dynamic network on the divergent growth aspirations.

Rauf and Mitra (2010), in a comparative study on immigrant and British born Pakistani female entrepreneurs, concluded that there are subtle differences in the networks of relationship maintained by them with differential outcomes for their ventures. They suggested that British born Pakistani female entrepreneurs maintain ‘women-only-networks’. We take a

step towards a better understanding of the ‘gendered’ network maintained by British born Pakistani female entrepreneur by examining two previously unexplored research questions:

- a) what causes second generation Pakistani female entrepreneurs to maintain a ‘gendered’ network? and
- b) how does a ‘gendered’ network influence their growth aspirations for their ventures?

### **Growth orientation – The ‘preference’ theory of growth**

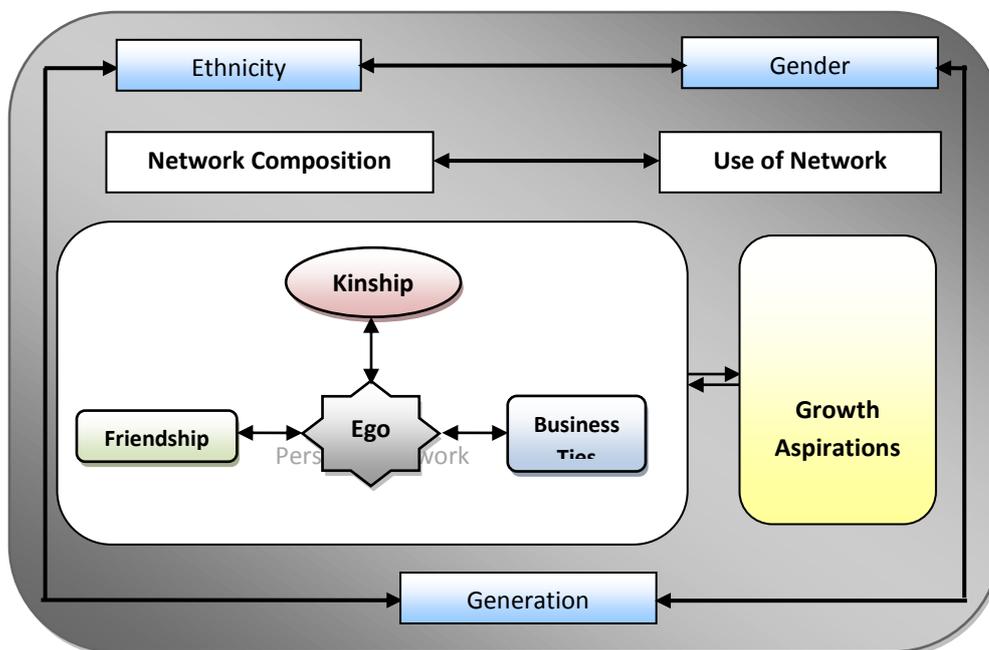
Research studies have identified the factors that hamper the growth of minority businesses, such as dense networks (Kontos, 2004; Hoang and Antoncic, 2003), lack of required skills and resources (Teixeira, Lo, and Truelove, 2007; Evans, 1989), operating in traditional sectors (Basu, 1998; Clark and Drinkwater, 2000), and the availability of finance (Dyer and Ross, 2007; Chaganti and Greene, 2002). Liao (2004) divides the wider literature on venture growth into ‘macro-contextual predictors, including entry barriers, competition and environmental, cultural and contextual factors, and micro-behavioural predictors, such as demographics, firm age and personal attributes of the entrepreneurs. Research studies indicating and explaining the macro and micro factors affecting growth help to obtain an in-depth understanding of the impact of those factors and their relationship with the growth of the venture. However, they fail to offer an integrated view on how growth is conceptualised by the entrepreneur herself and how this conceptualisation is influenced by social and contextual factors.

Growth orientation of entrepreneurs is driven by the desire to achieve independence which implies that the growth and expansion of a business is dependent on the personal choice of the entrepreneur (Barringer, Jones and Neubaum, 2005; Chaganti and Greene, 2000). Contemporary debates on growth patterns of women owned business and growth choices of female entrepreneurs have adopted British sociologist Hakim’s (2002) ‘preference theory’ to explain the phenomenon. Marlow (2002) argues that slow or no growth of women owned ventures is the result of modest growth aspirations of female entrepreneurs, recognizing the element of ‘choice’ in female entrepreneurs’ decisions for growing or not growing their businesses (see Figure 2 below for a schemata of the choice framework for networking and its relationship with growth). Preference theory overcomes the drawbacks of existing theories of gender and growth by addressing the personal choices of women based on ‘women experiences’ (Hakim, 2000, 2004, 2006) and acknowledging the heterogeneity of work/life choices of women (Hakim, 2006).

We adopt the preference theory of growth to explain the impact of personal networks on the growth orientation of Pakistani female entrepreneurs. This study benefits from the merits of preference theory and attempts to deal with the criticisms by incorporating the influence of contextual factors (personal network). It views growth and expansion of the business as being dependent on the entrepreneur’s perception of her business. These

perceptions are shaped by multiple factors and most potent of these are social beliefs and values, cultural restrictions/perception and for some the list may include religious values.

Figure 2  
An Influenced Choice Framework of Networking for Growth



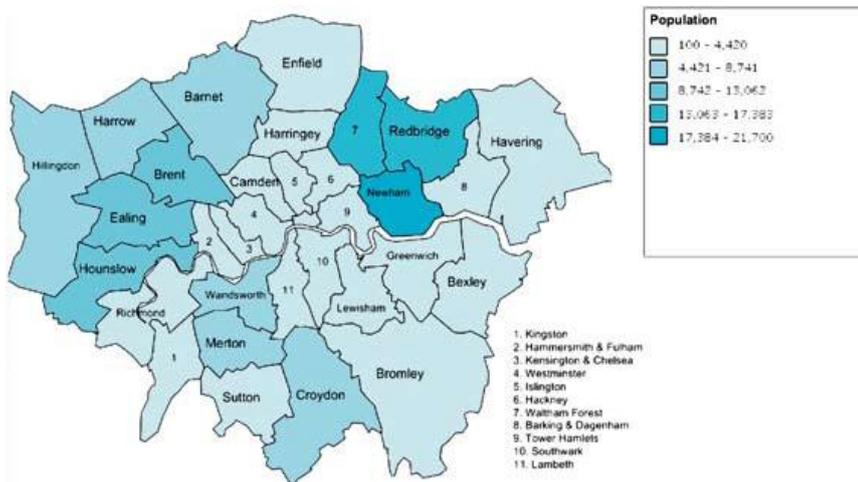
One of the important factors is the personal network of ethnic minority female entrepreneurs that is formed and maintained by female entrepreneurs, reflecting their choice and preferences of relationships. A personal network shapes the business outcomes including growth. The choice of ties in the network may translate in achievement of specific business goals such as growth of entrepreneurial venture. However, growth is not the natural outcome of expansion of a network that includes weak ties (Granovetter, 1973); it is dependent on the preference (choice) of ethnic minority female entrepreneurs. There is a two way relationship between networking process and growth aspirations of ethnic minority entrepreneurs. Influences on personal networks determine the nature of network ties that facilitate or hinder growth. On the other hand, growth orientation of ethnic minority entrepreneurs dictates the choice of the ties in their personal network. This study aims to explore this socially embedded two-way process for second generation ethnic minority entrepreneurs.

*Context of the study*

Our study was carried out in London, the home of one fifth of all Pakistanis in England. According to 1971 census 65 percent of Pakistani migrants were concentrated in Greater London out of which Almost 70 percent live in Outer London. The borough with the highest percentage of Pakistanis is Newham (Inner London). Pakistanis in London are one of the most active groups in economic sphere, with self-employment rates being 8 percent higher than the average population (ONS, 2010).

**Figure 3**

**Distribution of Pakistani Population in London, 2005 (Source: ONS estimates, 2005)**



An increase in the Pakistani migrant population in England is accompanied by manifold increase in the British born Pakistanis. Data management group's report (2005) states that British born Pakistanis make up 61 per cent of total number of Pakistanis in England. The number of Pakistani women alone has increased by 65 percent in the last decade, of which 86 percent born are in the UK.

**Table 1**  
**Gender Breakdown of Pakistani Population in London Boroughs**

|             | Central Boroughs* |                 | Rest of Inner Boroughs* |                | Inner London* |                | Outer London* |                 | Greater London* |                |
|-------------|-------------------|-----------------|-------------------------|----------------|---------------|----------------|---------------|-----------------|-----------------|----------------|
|             | No.               | Percent age (%) | No.                     | Percentage (%) | No.           | Percentage (%) | No.           | Percent age (%) | No.             | Percentage (%) |
| <b>Male</b> | 2,300             | 0.9             | 20,500                  | 1.9            | 22,800        | 1.7            | 50,700        | 2.4             | 73,600          | 2.1            |

|               |       |     |        |     |        |     |        |     |         |     |
|---------------|-------|-----|--------|-----|--------|-----|--------|-----|---------|-----|
| <b>Female</b> | 2,000 | 0.7 | 18,700 | 1.6 | 20,700 | 1.5 | 48,500 | 2.1 | 69,200  | 1.9 |
| <b>Total</b>  | 4,300 | 0.8 | 39,300 | 1.8 | 43,600 | 1.6 | 99,200 | 2.3 | 142,800 | 2.0 |

\*for details of divisions of London into Boroughs, see table 5.2

Source: Adopted from Office of National Statistics (ONS) 2001 Census Table

Pakistani females are part of the distinct cultural and religious group where the ‘femaleness’ is defined by social and cultural values which set the boundaries for female behaviour and activity (Dale et al., 2002). Halkia, Arifeen and Mourad (2011: 137) explain that the Pakistani ethnic group subscribes to notions of traditional gender roles that restrict women to the “*Chador*” (veil) and the “*Chardiwari*” (boundary wall) that “prevents them from approaching men”. The traditional role of Pakistani females remains intact even after migration to a foreign country and is transferred to younger generations. They cling on to the traditional roles without necessarily being influenced by the host society’s culture. Pakistani society is based on strong cultural and religious values that do not encourage females to go out of their homes to earn an income (Goheer, 2003). However, empirical evidence is needed to see how these values and roles are transferred to younger generation in the host society (UK), what role do they play in shaping the personal networks and furthermore, if it has implications for taking up self-employment. These questions underpin our enquiry about Pakistani second generation women entrepreneurs and what influences their growth aspirations.

### ***Methodology – The Research Site, Access and Data collection***

The study involved contact with Pakistani female entrepreneurs’ relationships in the network in relation to their growth aspirations. We, therefore, use a qualitative approach to make sense of their social experiences. In the absence of any reliable database for ethnic minority female entrepreneurs and in particular for Pakistani female entrepreneurs, respondents were identified and contacted through personal visits to South Asian markets in London (such as Southall and Green Street markets) and by employing snowball sampling (referrals) techniques. Contact was also made with community and women welfare organizations, business development agencies, and London borough councils. We participated in social events in the Pakistani community to win the trust of the Pakistani female entrepreneurs, who were reluctant to talk about their experiences to the researchers, thereby, adopting a community-based, quasi-ethnographic approach to explore in depth the social environment of our respondents. These interactions occurred over a period of eight months, that is, October 2009 to March 2010. The acclimatization period that resulted in identification of the potential respondents was followed by actual interviews with the Pakistani female entrepreneurs at their business sites.



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In order to obtain a clear picture and an understanding of the dynamics of personal networks, relational data was collected through in depth interviews. Relational or egocentric network data focuses on the relations of the focal actor (ego) in the network to explore the ego's<sup>49</sup> perspective on the network of relationships (Hanneman and Riddle, 2011; Marsden and Friedkin, 1994; Wellman and Hall, 1988). The 'ego' (Pakistani female entrepreneur) in the egocentric network is the unit of analysis; hence data is collected from them using name generator, name interpreters, interviews and observations (Wasserman and Faust, 1994; Marsden, 2005). Name generators are a set of questions that allow for appropriate enquiry of the 'egos' with the objective of identifying members of the personal network. Name interpreters are used to define some attributes of 'alters' such as age, ethnic origin, gender and education to understand the network composition (Burt, 1984; Carrington, Scott and Wasserman, 2005).

Name generators and name interpreters were used in combination with in-depth interviews to elicit relevant relational data and to explore their embeddedness in the context of Pakistani culture. In-depth interviews were conducted with 19 second generation Pakistani female entrepreneurs to elicit accounts of their lived experience regarding their personal networks in relation to their growth aspirations.

### *Egocentric Network Analysis of Data*

Relational data, generated through in depth interviews, was analyzed using the egocentric network analysis technique. An egocentric network consists of a central node ('ego') and other nodes ('alters') connected to it (Wellman and Faust, 1994). In addition to the links between the 'ego' and the 'alters', the egocentric network also includes links between 'alters'. This kind of network is represented through a sociogram which is defined as "a picture in which people (or a social unit) are represented in two dimensional space, and relationships among pairs of people are represented by lines linking the corresponding points" (Wasserman and Faust, 1994:11-12). Sociograms are used to visualize the linkages between network actors and channels through which an individual influences another, for instance, the flow of information from one person to another.

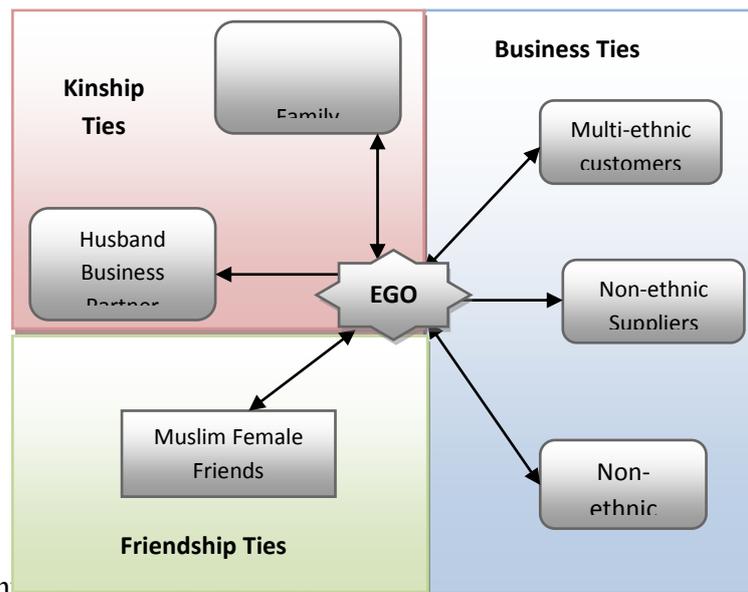
Egocentric network representation through a sociogram is one of the best methods available to reduce data into interpretable fragments to visualize the relevant network linkages and their influence on network members. This technique is employed for the current study to visualize and analyse the egocentric networks of Pakistani female entrepreneurs (ego) and network members (alters), and to delineate the nature of relations between them. By specifying the direction of the linkages, an attempt was made to investigate the influence of network members on Pakistani female entrepreneurs and their growth aspirations. In order to analyse the interview data, a reductionist approach was adopted to condense the data to 1)

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<sup>49</sup> 'Ego' refers to the personal, individual identity, focal actor or the central node in a network who is the protagonist in egocentric (personal) network analysis (Rauf and Mitra, 2010, Furht, 2010; Hupa et al, 2010; Scott, 2000)

nodes ('alters') or people identified by the 'ego' (Pakistani female entrepreneur) who are in contact with her, and 2) linkages – the relationships with alters as identified by the ego. This information is presented in the egocentric network diagram (sociogram) in Figure 3:

Figure 3  
Egocentric Network of a Respondent



The egocentric network of the respondent ('ego'), shows the connection of the ego with diverse members of the network. Although her egocentric network is composed of her family, friends and business associates, the nature of relationships vary with each group of 'alters'. In figure 3 directed arrows show the direction of exchange. For instance, the 'ego' is the recipient of resources and support from the family members and is contributing to them by providing them with the same support. However, exchange-based relationships with 'Muslim female friends' is not specified by the ego in the interview. Therefore, the linkage in the egocentric network is undirected. Egocentric networks were drawn (visualized) for all the respondents to establish the common parameters, summarized in the following table;

Table 2  
Properties of Egocentric Network of Pakistani Female Entrepreneurs

|  | Egocentric Network Composition |          |            | Network Composition Basis | Type of Support |
|--|--------------------------------|----------|------------|---------------------------|-----------------|
|  | Formal                         | Informal | 'Tie' Type |                           |                 |
|  | • Ethnic                       | • Ethnic | • Multiple |                           |                 |

|                   |  |   |   |   |   |  |
|-------------------|--|---|---|---|---|--|
| <b>Parameters</b> | <ul style="list-style-type: none"> <li>• Non ethnic</li> </ul> | - | <ul style="list-style-type: none"> <li>• Kinship</li> </ul> | x   | <ul style="list-style-type: none"> <li>• Ethnicity</li> <li>• Religion</li> <li>• Gender</li> </ul> | <ul style="list-style-type: none"> <li>• Active Participation</li> <li>• Emotional support</li> <li>• Ideas/Information</li> </ul> |
|                   |  |   |   | <ul style="list-style-type: none"> <li>• Uniplex</li> </ul> |   |  |

Parameters are common properties of the egocentric networks of Pakistani female entrepreneurs drawn from the individual ego networks. These properties helped in visualizing the representative networks of second generation Pakistani female entrepreneurs. It served as a basis for concluding the composition, distinguishing features of linkages and their influence on the growth aspirations. The representative network is presented and described in the subsequent sections.

Interview data was analysed to explain the entrepreneurial journey of second generation Pakistani female entrepreneurs along with transitions in their personal network over a period of time. The narration of entrepreneurial experiences, starting from the pre-start up, motivations and process of starting a venture, and transition phases covering growth and development of venture over time, gives a picture of their growth aspirations which are discussed in following sections.

### ***Presentation of Findings***

Our findings are presented in three sections. The first section details the social context within which these entrepreneurs negotiate their entrepreneurial roles, while the second section provides details of the egocentric data analysis process and the resulting sketch of the network of Pakistani female entrepreneurs. The third section looks at the growth orientation from the personal networks of Pakistani female entrepreneurs.

#### ***A. Profile of Pakistani Female Entrepreneurs***

Based on interview data we attempt to present profile of a second generation Pakistani female entrepreneur in London - a British born Pakistani female, aged 25-50, married, living in a nuclear family, and running a business in service sector. She is a career oriented and ambitious woman who claims to have high growth aspirations for her business. Born in a traditional Pakistani family this female entrepreneur attaches importance to socially prescribed roles and, therefore, strives to balance career aspirations with socio-cultural obligations. In her quest for a good career she obtains formal education (see [Appendix 1](#)) and training but realises that her career aspirations cannot be achieved through paid employment because it may affect adversely her household duties. Religious conflict, networking places, socialization requirements, and workplace discrimination are some of the factors that hinder

her growth prospects in the job market. Adherence to socio-religious norms and the conflicts forces her to be a ‘boss of her own business’.

Interview data for this study suggest that Pakistani female entrepreneurs start and grow their entrepreneurial ventures for a variety of reasons. Their motivations lie in supporting their families, investing resources in beneficial ventures and to invest their spare time in a useful activity. Becoming self-employed is tantamount to finding a source of income because they are not fully dependent on their parents or husbands for financial support, unlike their immigrant mothers. They have to find a stream of income for themselves. Their awareness of the local environment, the absence of any language barrier and British citizenship helps to generate opportunities available to her that her parents (immigrants) could not avail of as first generation Pakistanis. Her choice of business and its growth depends on the opportunity identification, family background (in business) and family’s support in providing them with resources.

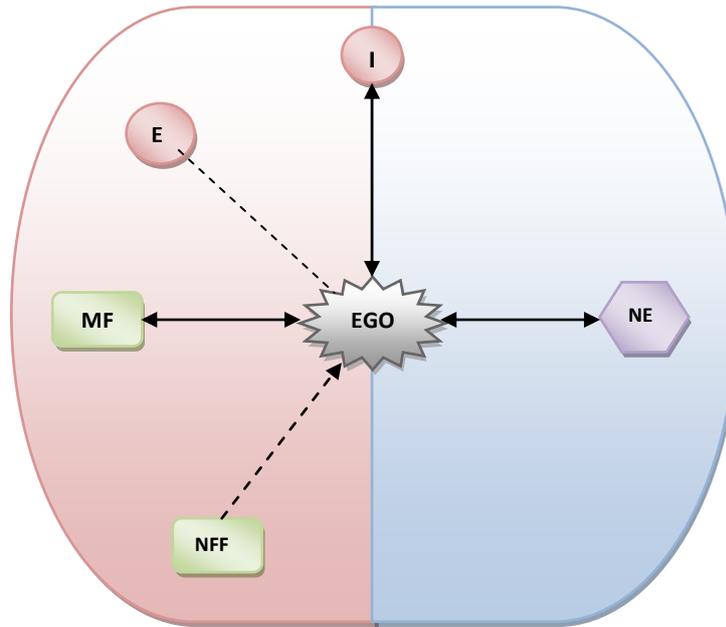
British born Pakistani females’ career orientation interacts with the opportunity structure of Britain leads to their high growth aspirations. Appendix 1 details the growth oriented activities of all respondents. Their engagement in searching for new ways of doing business, exploring new channels of raw material and supply chains and looking for market expansion depicts the growth orientation of British born Pakistani female entrepreneurs. Appendix 2 identifies the spread of sectors and the locations in London where our second generation ethnic female entrepreneurs of Pakistani origin carry out their business.

### ***B. A Sketch of ‘Women-only-Network’***

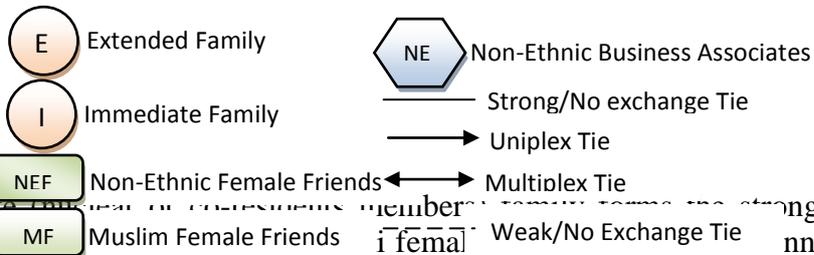
Egocentric network analysis of Pakistani female entrepreneurs shows that their network contains ‘gendered’ ties. Pakistani females keep their social circles separate from their business (formal) networks. A social circle consists of kinship and friendship ties whereas a formal network with business associates consists of all non-ethnic ties. They use their networks for extracting resources and emotional support for the entrepreneurial activities. Figure 4 shows that Pakistani female entrepreneurs have ‘gendered’ networks which are the outcome of religious beliefs and traditional social boundaries. Business is transacted with non-ethnic members only.

Figure 4

Egocentric Network of Second Generation Pakistani Female Entrepreneur



**Key – Nodes and Linkages**



Immediate family of entrepreneurs member of family forms the strongest tie in the network of relationships in female entrepreneurs. Relationship with extended family (joint family) is weak, represented with dotted line in the diagram. Friendship ties constitute the second part of the social circle, depicted in Figure 4. Such ties are characterized by female and Muslim friends from across different communities. Business ties compose the second half of the personal network, as shown in the right hand side of the personal network in Figure 4. Business ties refer to business associates with whom Pakistani female entrepreneurs are connected. Non-ethnic ties compose most of the business ties for them generally as a result of a complete mistrust of ethnic members.



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The ego network of Pakistani female entrepreneurs is composed of ‘gendered’ ties. Together with the choice of business in ‘women – only – environments’, their reliance on female friends, the help of sisters and advice from their mothers, shows their preference for gender specific networks. Such a choice appears to be the product of religious and cultural boundaries. The discussion that follows shows the role of gender in the three spheres of kinship, friendship and business, in detail;

### B.1. Importance of Kinship Ties

Kinship ties are considered to be most important of ties for second generation Pakistani female entrepreneurs.

*“They (family members) have been very supportive and I think that is the plus point that we Asians have that we have very supportive families. Having such a family itself is a big support. (They provided) all kinds, I mean financial, physical and emotional”*  
(Naila<sup>50</sup>)

Kinship ties provide resources, advice and emotional support. In Pakistani society the family unit provides help and support for their female members to enable them to participate in social and economic activities (Dale et al., 2002). A collective family system is an important characteristic of Pakistani society (Qadeer, 2006). From the results it seems that second generation Pakistani female entrepreneurs continue to maintain the traditional family system which they inherit from their migrant parents. The instrumentality of the kinship ties, apparent from the support provided by them, could be the main reason for maintaining them. Kinship is indifferent to gender even though it is more important to female entrepreneurs.

### B.2. Friendship Ties forming ‘Gendered’ Network

Personal networks of Pakistani female entrepreneurs show friendship ties with other Muslim women across communities. The absence of ethnic ties but a preference for Muslim ‘female-only’ ties show that ‘gender’ and ‘religion’ are important considerations for them in maintaining ‘women-only-network’;

*“We can’t talk to boys, it is not allowed for us, and we can’t follow any other culture or religion you know. But I do have many friends, they are all females of my almost my age ..... business is another story, at time I can’t avoid dealing with men”*  
(Samira)

The choice of networking with people belonging to same ethnic or religious (or both) groups depends on how a person likes to be projected in the social set up. British Pakistanis make a distinction between identifying themselves as a ‘Pakistani’ and as a ‘Muslim’, reflecting the coincidence of ethnic and religious cleavages for Pakistanis. However, and almost paradoxically, the wider and universal appeal of religion connects British Pakistanis to

<sup>50</sup> In order to preserve the anonymity of the respondents, surrogate names are used throughout the paper



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diverse communities and helps them fight the negative associations of a ‘disadvantaged ethnic identity’”. The concept of global *umma*<sup>51</sup> provides them with a sense of kinship and feelings of belongingness to a larger Muslim community, which assists in fighting the sense of being a tiny minority in Britain. For Pakistani female entrepreneurs, the ability to choose and forge friendship ties with other Muslim women is of greater significance for their aspirations and plans for growth than ethnicity.

### B.3. Business Only Ties – Preference of Non-Ethnic Ties

Business ties in the personal network of second generation Pakistani women entrepreneurs are ‘gendered’ but non-ethnic. Pakistani female entrepreneurs indicated the preference of ‘women-only-environment’ in their interviews;

*“this is for ladies, the area we are in .....we have not decided to cater for only Asian customers but we did decide to cater women. We do have the Asian customers, the Eastern European and Black, so basically its open door policy everybody is welcomed regardless of their background and race”.* (Zeenat)

Such choices appear to display the adherence to cultural and religious framework by Pakistani female entrepreneur.

*“Being a Pakistani and a Muslim obviously we can’t go out much and we can’t work for somebody according to their rules, so what else could I do? I couldn’t do a grocery shop or a food shop so what is the best business for the women? so that’s why I got into this business ..... I am dealing with the women and being a Muslim we don’t want to talk to men. So that’s why I chose this business”* (Kiran)

Together with the choice of business ties the respondents mentioned female friends the help of sisters and advice from mothers mainly referring to reliance on ‘gendered’ ties in the network.

Furthermore, the egocentric (personal) network of second generation Pakistani female entrepreneurs shows the absence ethnic ties from the business sphere. Their unpleasant business experiences with fellow Pakistanis led them to reduce ethnic ties in their networks. They expressed a high degree of mistrust in intra-ethnic group (Pakistani) customers, suppliers and other Pakistani business associates. When probed in depth, they mentioned the stories of deception and dishonesty on the part of Pakistanis;

*“With Pakistanis you deal in millions, they will deceive you and will never take complaints, they are dishonest people”* (Naima)

<sup>51</sup> Concept of brotherhood with Muslim fellow from all over the world

Instead of ethnic customers and suppliers Pakistani female entrepreneurs are linked with non-ethnic customers and suppliers (from other communities of London).

Low trust level among Pakistani female entrepreneurs can be attributed to the presence of sub-ethnicities, deep rooted social class and caste system, income disparities, great rural urban divide in Pakistani society. Such disparities helped Pakistanis to keep their distinct identities through their sub-ethnicities, such as Punjabi, Sindhi, Balochi, and Pathans, who present diverse characteristics in terms of customs and traditions followed, provincial dresses, the notion of *purdah* for females (more liberal in Punjab and Sindh as compare to Balochistan and Khyber Pukhtunkhwa) among many others (Malik, 1996). Such ethnic diversity, according to Keefer (1997), contributes to low trust levels among ethnic group members. Furthermore, mistrust develops over a period of time due to the shared experiences of group members (Zucker, 1986). In a series of repeated interactions people learn what to expect from each other and develop patterns of mutual dependence. The trend is observed for Pakistani female entrepreneurs in the pluralistic and multicultural societies.

### ***C. Interrelationship of personal network and growth aspirations***

The personal network of Pakistani female entrepreneurs is the product of their ethnicity, gender roles and religious values. This uniquely composed network evolves over time influencing the inclusion or exclusion of network ties. During the start up phase Pakistani female entrepreneurs had family and friends, ethnic suppliers and customers in their personal network. However, for the growth phase of the business we note not only an increase in the number of business associates but also a shift in terms of the ethnicity of business associates.. One of the respondents started taking projects with the Pakistani community during the start up phase but over eight years of business she is now working across different communities. She narrates that;

*“(Now I take the projects) across communities but started with Pakistani community as people wanted them but we didn’t just want to work with Pakistani community as you then got only work with Pakistani community and less scope for growth as Pakistani community is only 2% of British population. (Also apart from diversification of products) these issues or products are transferrable to a bigger market” (Samira)*

The diversification of products across communities does not only show the growth of business but also depicts the growth of personal networks. Similarly finding new sources of raw materials with the expansion of the business also indicates introducing new ties in the network. It seems that growth of the business demands the expansion of personal non-ethnic and weak tie networks, which in turn accelerates the growth process.

According to Granovetter’s (1973) the inclusion of weak ties should lead to expansion

and growth of businesses. However, decisions regarding the inclusion or exclusion of ties are based on contextual factors such as mistrust of community members, household responsibilities that keep Pakistani female busy, Ethnically heterogeneous but dense, gendered ties present a unique scenario for the purpose of interpreting various phenomena. We argue that growth is not the natural outcome of expansion of network but that it is rather dependent upon the preferences of Pakistani female entrepreneurs

### ***Discussion: 'Gendered' personal network influencing growth Aspirations***

This study established that the personal networks of Pakistani female entrepreneurs are meaningfully constructed social relationships that emerge through the interaction of Pakistani (social and religious) norms and the multi-ethnic context of London in the wider British society. They use the overlapping set of Pakistani socio-cultural and religious norms to interact with a multiethnic socio-cultural framework of London to construct unique patterns of personal networks. These networks act as conduits, providing access to tangible and intangible resources and lead to various subjective manifestations and perceptions including growth aspirations. In other words, the entrepreneur experiences the socially constructed space where growth aspiration is one of the possible outcomes. The nature of growth aspirations is not only dynamic but they unfold over time with a degree of uncertainty.

The construction of gendered network by second generation Pakistani female entrepreneurs is based on *'habitus'*- "a generative machine engendering many seemingly unrelated responses to many situations" (Hillier and Rooksby, 2005:7). The most important aspect of the generative mechanism involves their motivation to join self-employment, parental expectation and experiences with Pakistanis in business. Together, these factors unfold into inclination towards religion with a lower emphasis on socio-cultural norms. Religious norms are more stable, broad and universally recognized as compared to Pakistani socio-cultural norms which may depict high fluidity within the multi-ethnic environment of London (Jacobson, 1997). The shift does not result in a rejection of Pakistani socio-cultural norms as they are largely compatible with religious norms. It can be stated that interaction with London's pluralism influences the socio-religious framework of British born Pakistani women and their experiences with the ethnic group causes changes in their orientation towards ethnic ties in their network. Negotiation of traditional gender roles within the given ethnic framework hints towards the dynamism, however, network expansion itself is not intended and directed by growth aspirations.

It may seem that Pakistani entrepreneurs exhibit various degrees of instrumentality in forming their networks as they end up with the most beneficial personal networks - one that balances the psychological needs with venture requirements. The particularized trust in kin and friends provide psychological support (by satisfying belongingness needs) and ensures the availability of (tangible and intangible) support in different business activities. The



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generalized trust in non-ethnic business ties is maintained because it is more beneficial for the business and also serves the friendship needs of British born Pakistani entrepreneurs. Thus, it can be said that mistrust in ethnic business ties, deeply rooted ethnic fractionalization within the common Pakistani identity and the multiethnic context of London not only allows but compels Pakistan female entrepreneurs to form generalized trust in non-ethnic members. From a network perspective trust becomes the basis of a dense ethnic network, whereas, mistrust would cause construction of a porous and permeable network allowing for inclusion of weak ties. It can be concluded that one of the unintended consequences of mistrust is that it potentially drives the growth aspirations of Pakistani female entrepreneurs upwards.

The relationship between growth aspirations of female entrepreneurs and their personal networks cannot be solely based on ethnic ties (Burt, 2001, Dallalfar, 1994, Razin and Langlois, 1996, Wong, 1997, Lee, 1999, Saxenian, 1999) and network heterogeneity and diversity (Aldrich and Zimmer, 1986, Granovetter, 1973). The growth aspirations of British born Pakistani female entrepreneurs are a by-product of mistrust on ethnic ties and reliance on non-ethnic (weak) business ties. Thus, it is the nature and meaning behind the socially constructed personal network that can introduce the entrepreneurs to the notion of venture growth aspirations.

### ***Concluding Remarks***

Our exploratory analysis of personal networks of second generation Pakistani female entrepreneurs show that strict adherence to religious values and traditional gender norms render their networks as ‘women only networks’, consisting mostly of Muslim females. An ethnically diverse but religiously homogenous gendered network of relationships has implication for growth orientation of Pakistani female entrepreneurs. While growth orientation seems to be an outcome of their multi-ethnic network, multi-ethnic ties are not sought pro-actively for venture growth. Therefore, for Pakistani female entrepreneurs growth can be termed as a personal choice which is influenced by factors of religiosity and gender role requirements. This study takes a micro view of growth aspirations by considering them as a function of the entrepreneur’s perception. In doing so, it not only differs with the macro perspective of considering only the statically defined opportunity entrepreneurs as growth oriented but also endeavours to explore the wider meaning of ‘growth’ that influences the entrepreneur’s intention and decision to pursue venture growth.

We argue that impact of network on the growth can be understood only if we bear in mind 1) the intricacies produced by religious beliefs underlying the gendered network of Pakistani female entrepreneurs, and 2) personal choices, in negotiating socially constructed gender role and/or religious ideology which are taken to the work places. On a conceptual and theoretical level, there is a need to re-conceptualize the relationship between entrepreneurship, ethnicity and religion keeping in mind inter-group and ethnic differences. Whether such subtle differences should be taken into account for policy making purposes

remains an open question. But if the objective is to obtain a better understanding of how a growing community of entrepreneurs with high aspirations work, then policy makers require the knowledge of factors influencing network and growth of ventures to be able to provide facilitative policies for different communities of interest..

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*Appendices*

***Appendix 1: Case book***

| No | Respondent | Marital Status | Education          | Business      | Reasons for Self Employment                     | Growth Orientated Practices   |
|----|------------|----------------|--------------------|---------------|---|---|
| 1  | Humera     | Unmarried      | Graduate           | Garments      | Career orientation, job market blocked          | new product, new sources of raw materials                                     |
| 2  | Zeenat     | Married        | Graduate           | Salon         | Earning head, passion                           | Discovering new market, innovative products and services                      |
| 3  | Kiran      | Married        | A'Levels           | Salon         | Invest time and resources, work life balance    | New product (service), new market, new supplier for inherited business        |
| 4  | Naima      | Unmarried      | Professional Pilot | Boutique      | Invest time and resources, work life balance    | innovative products and services  |
| 5  | Shehnaz    | Married        | GCSE               | Restaurant    | To help husband in business, work like balance  | Product diversification, supply chain extension                               |
| 6  | Naheed     | Married        | GCSE               | Salon         | Invest of time and resources                    | Discovering new markets, product line extension over time                     |
| 7  | Laila      | Married        | GCSE               | Makeup Artist | Job market blocked, career orientation, passion | Introducing new products in the market, discovery of unexplored market niches |
| 8  | Farhana    | Married        | LLB                | Boutique      | Inherited the business, career                  | Product and market diversification of family                                  |

|    |             |           |           |                 |  |  |
|----|-------------|-----------|-----------|-----------------|--|--|
|    | Javed       |           |           |                 | orientation, passion                                     | business   |
| 9  | Naila Akbar | Unmarried | Graduate  | Consultant      | Career orientation, job market blocked                   | Exploring new market niches  |
| 10 | Nazima      | Divorced  | Graduate  | Food            | Source of income, work life balance                      | New product introduced in unexplored markets                           |
| 11 | Atiqa       | Divorced  | Graduate  | Salon           | Source of income, job market blocked                     | New product , new market, new source of raw materials                  |
| 12 | Zubaida     | Divorced  | Graduate  | Greetings Cards | Source of income, career orientation, job market blocked | innovative products and services                                       |
| 13 | Sobia       | Divorced  | MBA       | Consultant      | Career orientation, job market issues, work life balance | Discovering new markets, product line extension over time              |
| 14 | Mrs. Maalik | Married   | A' Levels | Hotel           | Career orientation, source of income                     | New product (service), new market, new supplier for inherited business |
| 15 | Shazia      | Married   | A' Levels | Garments        | Source of income and job market blockage                 | Product and Market diversification                                     |
| 16 | Mrs. Khaliq | Married   | LLB       | TV channel      | Passion, professionally trained and to invest expertise  | Innovative product, new market niches                                  |
| 17 | Samira      | Married   | Graduate  | Jewellery       | Source of income   | Market extension   |

|    |       |           |          |                |                                       |                                    |
|----|-------|-----------|----------|----------------|---------------------------------------|------------------------------------|
| 18 | Alia  | Married   | Graduate | Bespoke tailor | Passion, career orientation           | Product and Market diversification |
| 19 | Amber | Unmarried | Graduate | Boutique       | Career orientation, job market issues | New sources of raw materials       |

**Note:** in order to preserve the anonymity of the respondents, surrogate names are used throughout the paper.

## *Appendix 2*

### *Sectoral and Geographical Divide of Respondents*

| Sectoral Divide |    | Geographical Location |    |
|-----------------|----|-----------------------|----|
| Sector          | N* | Location              | N* |
| Clothing        | 8  | Harrow                | 10 |
| Beauty Salons   | 9  | Newham                | 9  |
| Food            | 5  | Central London        | 8  |
| Jewellery       | 2  | Ealing                | 4  |
| Therapists      | 4  | Ilford                | 3  |
| Consultants     | 4  | Leyton                | 4  |
| Misc            | 8  | Finchley              | 2  |
| Total           | 40 | Total                 | 40 |

N\* - Number of Respondents

**SUSTAINING COMPETITIVE ADVANTAGE AND PERCEPTION OF SOCIAL RESPONSIBILITY OF SUCCESSFUL WOMEN ENTREPRENEURS IN MALAYSIA**

"Dr. Cheng Wei Hin"

11th International Entrepreneurship Forum Kuala Lumpur, Malaysia, 4-6 September, 2012

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### **Abstract**

The paper examined the social responsibility of successful women entrepreneurs in Malaysia. Nine successful women entrepreneur who had made million dollars in sales and have expanded their business overseas were interviewed face to face. A model of what motivates them to become entrepreneurs and how they sustain their business was also identified. This is a qualitative study where women entrepreneurs of Malay, Chinese and Indian origins were examined and interviewed face to face in 2011 . The findings showed that most successful women entrepreneurs considered social responsibility as very important and it is a way for them to show to their customers that they are grateful for their community's support.

## **VII. BUSINESS MODELS FOR SUSTAINABILITY**

## **TOWARDS AN ENTREPRENEURIAL DISCOVERY PROCESS IN THE BASQUE COUNTRY: THE ELECTRIC CAR CASE**

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### **ABSTRACT**

**Sub Theme:** 8 Business Models for Sustainability

The objective of this paper is to analyse the success factors behind the Basque electric car flagship initiative, how the public policy has supported this entrepreneurial discovery process and its role as one of the strategic lines of the Basque Smart Specialisation Strategy (RIS3).

The methodological approach for the study focus mainly in the deep analysis of current literature on Smart Specialisation, and specifically on how entrepreneurial discovery processes nurture regional smart specialisation choices. The theoretical approaches (combining qualitative and quantitative approaches) are complemented by fieldwork with the main representatives (from business and public sectors) regarding the identification of the entrepreneurial process and the supporting measures from the regional government.

The main results of the study highlighted the importance of regional context for the emergence and consolidation of entrepreneurial discovery processes such as that of the electric car in the Basque Country. The electric car case is an example of how a semi-spontaneous collaboration supported by public authorities resulted in an entrepreneurial activity where many actors from a regional quadruple helix combined different technological approaches (energy efficiency, automotive and environmental solutions) to define a new business model, highly knowledge intensive, globally competitive and environmental friendly.

The paper gives an opportunity to identify the key elements behind a successful policy oriented to promote entrepreneurial discovery processes as well as the role expected from each axe of the regional quadruple helix. The implications of the paper may be interesting for public authorities and agents involved in the new generation of Smart Specialisation Strategies (RIS3), a conceptual approach that is gaining increasing importance in policymaking (e.g. DG Regio of the European Commission or OECD)

**Keywords:** entrepreneurial discovery process, smart specialisation, environmental sustainability, electric car.

## 1. INTRODUCTION

Nowadays, most academics, politicians and businessmen agree that entrepreneurial processes driven by innovation are the key not only to business success but also to regional prosperity (Pontikakis et al. 2006, Foray et al. 2009 and McCan and Ortega-Argilés 2011). However, to ensure the anchorage of prosperity to the regional context innovation driven entrepreneurship must be understood and developed as a place-based concept (Barca et al. 2011). This requirement brings into question the mechanisms and processes necessary to develop the correct place based policies that trigger the economic and social determinants resulting in profitable innovations and new activities anchored to the territory.

The Basque Country is one of the best regional cases to analyse all these issues, specifically how economies evolve, grow, and they reinvent themselves towards new economic activities through radical innovations fuelled by entrepreneurial discovery processes.

Although it could be thought that current entrepreneurial processes in the Basque Country are spontaneous phenomena driven by natural interclustering effects, there were some macro and micro conditions that favoured them. Thus, during a period of nearly three decades, the Basque region has developed specific public-private initiatives as well as a complete policy framework that has contributed to the emergence of a number of flagship projects resulting from successful entrepreneurial discovery processes.

In this context, the paper proposes a quantitative methodology to link the regional economic specialisation patterns to entrepreneurial discovery processes phenomena and observe their roots from an economic structure point of view. In addition to that, the paper proposes also a qualitative methodology complementary to the previous one focused on those elements that contributed to develop the context's conditionalities that have made possible new business models from radical innovations, especially regarding the role of regional public policy.

The paper specifically focused on one of those entrepreneurial discovery processes -the electric vehicle case-, a new eco-industry emerging from a quadruple helix collaborative project and from a technology hybridization process between automotive and energy sectors.

## **2. OBJECTIVES**

The main objective of the paper is to analyse the entrepreneurial discovery process introduced in the smart specialisation literature (Foray et al. 2009 and McCann and Ortega-Argilés 2011) for the specific case of the Basque Country. A mixed conceptual-empirical approach allows concluding lessons that could be of utility in other regions. The specific objectives of this work are the following:

- Definition of a mixed quantitative-qualitative methodology to identify the frontier of the possibilities given by regional related variety and the entrepreneurial discovery processes linked to its exploitation.
- Identification and analysis of the relationships between economic specialisation, related variety and entrepreneurship regarding regional smart specialisation and its strategies (RIS3).
- Application of this methodology to the case of the Basque Country in order to characterize and describe an example of an entrepreneurial discovery process as included in the smart specialisation concept.
- Elaboration of a set of conclusions and lessons from the case study in order to favour the transfer of this experience and the improvement of regional public policies focused on innovation and entrepreneurship for the coming Regional Innovation Smart Specialisation Strategies (RIS3).

The structure of the paper has been divided into four additional chapters. The third includes the methodological developments (quantitative and qualitative), the fourth and fifth its application to the case of the Basque Country. Finally, the last chapter (6) includes some lessons and conclusions for an entrepreneurship and innovation public policy within the smart specialisation strategies.

### 3. METHODS

#### 3.1 Identification of the specialisation pattern and the related variety exploitation possibilities: the quantitative approach

The methodology developed in this section has its roots in the work of Del Castillo and Paton (2010b) that it is based on a classical approach for cluster mapping (Porter 2003, Brenner 2005 and Duranton and Overman 2005). As a starting point we consider a set of variables (5 in total) to be included in the analysis of economic specialisation mapping, namely: economic specialization and concentration, interrelationships within the cluster, economic impact and technological structure.

**Figure 1. Establishing a typology for specialisation pattern identification at regional level**

| <i><b>TYPOLGY</b></i>    | <i><b>AREAS</b></i>      | <i><b>METHODS</b></i>             |
|--------------------------|--------------------------|-----------------------------------|
| Defining elements        | Specialization levels    | Specialization coefficient        |
|                          | Geographic concentration | Spatial heterogeneity index       |
|                          | Interrelationships       | I-O multipliers                   |
| Characteristics elements | Competitiveness levels   | Labour productivity index         |
|                          | Economic impact          | I-O multipliers (Knock-on effect) |
|                          | Market orientation       | Data on exports                   |

Source: Del Castillo and Paton (2010) “*Methodology for cluster Mapping and Impact Analysis. Critical Mass for Innovation*”

The first two variables refer to aspects that define a specialisation pattern/ cluster (defining elements), while the rest refer to those that characterize and allow classification of equals (characteristic elements).

### *The economic specialization*

Economic specialization is one of the most visible characteristics of any given cluster and has to do with the progressive division of labour according to products and processes becoming more complex and requiring further deepening of the value chain.

In this sense, we define the specialization of a location as a greater relative value for a particular variable with respect to the same measure in a superior geographical scope. In the work of Porter (2003) this has been called the location quotient. Mathematically the expression of the location quotient for a sector "x<sub>ij</sub>" would be:

$$CE(x_{ij}) = \frac{\frac{x_{ij}}{\sum_{i=1}^n x_{ij}}}{\frac{\sum_{i=1}^n x_{ij}}{\sum_{i=1}^n \sum_{j=1}^z x_{ij}}} \cdot 100$$

*Analytical expression 1*

where "x<sub>ij</sub>" is the number of firms for the sector "i" and the region "j", "n" is the total number of sectors within the economic classification and "z" the total number of regions.

The result of applying this specialisation coefficient (CE) is a percentage that can range within the following values:

- "CE" (X<sub>ij</sub>) ≤ 1.10 - The sector "x<sub>ij</sub>" has no specialization (lower relative weight than the average).
- "CE" (X<sub>ij</sub>) > 1.10 - The sector "x<sub>ij</sub>" has a certain degree of specialization (relative weight greater than average).

The economic activity classification of the Spanish Institute of Statistics (CNAE) provides information on employment stratum. This information can be further broken down, taking

into account the weight of employment in the identification<sup>52</sup>. Thus, together with the criterion of specialization of more than 10% of the average, taking into account the different levels of employment (without employees, with employees and with +10 employees) we can further detail the economic specialisation pattern considering the most remarkable regional clusters.

### ***The geographic concentration***

Along with economic specialization, the geographic concentration of economic activity was the most visible element in cluster definition. Although nowadays the relative importance of geographic proximity has been reduced due to globalization and transportation and communication cost (Cairncross 2001), distance generates considerably effects regarding knowledge spillovers, cost efficiencies and cluster synergies. We propose a measure of geographic concentration based on the well known GINI index:

$$I_c = \left| 1 - \sum_{c=1}^{C-1} (X_{c+1} - Y_c) \right| \quad \text{Analytical expression 2}$$

Where “ $X_c$ ” is the percentage of enterprises located in a zip code “ $c$ ”, and “ $Y_c$ ” is the percentage of area accumulated for that zip code “ $c$ ”.

This spatial heterogeneity index ranges from 0 to 1 where 0 represent and equality distribution of enterprise across territory and 1 represent a total inequality distribution (total concentration in a given location).

### ***The interrelationships between agents***

The increasing importance of innovation as a source of economic specialisation has led to a further analysis of networking performance as a key explanatory element of the superior performance of economic agglomerations.

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<sup>52</sup> By measuring the degree of concentration based only on the number of incorporated companies, rounded results can be obtained when considering the group of companies without employees (not considering the size of companies).

The regional input-output framework is the instrument that provides most information on the relationships between economic sectors. The measurement of technical coefficients (commercial relationships) gives the degree of dependence between one sector and the rest of the regional economy. Thus, those sectors that exceed a certain value regarding others become part of either suppliers (if the sector is the client) or customers (if the sector is the provider). In this sense, the input-output analysis will allow us to identify through these coefficients both suppliers of the core activities of the cluster as well as the customers of these sectors. The technical coefficients of each pair of sectors "i" and "j" are calculated by the following expression:

$$a_{ij} = \frac{x_{ij}}{X_j} \quad \text{Analytical expression 3}$$

Where "a<sub>ij</sub>" is the technical coefficient for the sector "j", "x<sub>ij</sub>" the inputs in sector "j" for the sector "i" and "X<sub>j</sub>" the total production in sector "j". The value of "a<sub>ij</sub>" is always in the range [0,1] and

From the expression 3 (obtaining the coefficients for the entire matrix), it can be identified the value chain for a given fixed value "a". Mathematically the value chain can be defined as:

$$\forall j, i \in A, \text{ si } a_{ij} > a_{Fj} \quad \text{Analytical expression 4}$$

From the above expression "∀ j, i ∈ A, si a<sub>ij</sub> > a<sub>Fj</sub>", the fixed value "a<sub>Fj</sub>" is defined by us as follows:

$$a_{Fj} = \frac{\sum_{i \in A} x_{ij}}{n} \quad \text{Analytical expression 5}$$

In other words, all those sectors that provide intermediate inputs with a higher degree than the average for that sector (fixed value) may be considered as part of its value chain. In any case, even setting a filter through the specification of the fixed value "a<sub>Fj</sub>", not all sectors within the defined value chain will have the same weight, or in other words, the same relationship

intensity. Therefore, we need to specify different degrees of relationships within each chain, apart from the selected sectors with a value  $a_{ij} > A_{Fj}$ , the cut-off points for the 3 categories will be:

$$Ring_{1j} = \left( \frac{\text{Max } a_{Fij} - \text{Min } a_{Fij}}{n} \right) + \text{Min } a_{ij}$$

*Analytical expression 6a*

$$Ring_{2j} = T_{1j} + \left( \frac{\text{Max } a_{Fij} - \text{Min } a_{Fij}}{n} \right)$$

*Analytical expression 6b*

$$Ring_{3j} = T_{2j} + \left( \frac{\text{Max } a_{Fij} - \text{Min } a_{Fij}}{n} \right)$$

*Analytical expression 6c*

Where  $Ring_1$  is the cut-off point for a low intensity level,  $Ring_2$  for an average level and  $Ring_3$  for a high level (considering the whole sector "j").  $T_{1j}$  and  $T_{2j}$  are  $ring_{1j}$  and  $ring_{2j}$  respectively.

### ***The economic impact***

Sector with an economic specialisation nature are in most cases strategic industries for the economy of a region and their economic relevance comes from both its direct impact on the main macroeconomic variables (GDP, production, employment, etc.) and the knock-on effects on the rest of the economy. In this sense, the overall impact is the result of the sum of the direct impact within the cluster itself and the effects on the rest of the economy.

The methodology proposed (Castillo et al. 2008) firstly calculates the direct economic impact of the sector, i.e. the economic weight in terms of employment, GDP or total production. Second, the calculation of the total impact on the economy is obtained by the multipliers of GDP and employment. The basic tool of this methodology is the input-output table. The inversion of the matrix gives us the GDP and employment multipliers:

- The multiplier of added value measures the increases of GDP in the economy due to the increase in a unit of the final demand in each industry (turnover in our case), given by the following expression:

$$\text{GDP Multiplier} = \text{GDP}_i * (\text{I} - \text{A})^{-1} = \text{GDP}_i * \text{BR} \quad \text{Analytical expression 8}$$

Where  $\text{GDP}_i$  is the vector of coefficients of GDP at a basic price per unit of production, “I” is the identity matrix, “A” is the internal coefficient matrix and therefore “BR” is the interior inverse matrix.

- The design of an employment multiplier involves establishing a hypothesis about the existence of a linear relationship between employment in each sector and the value of their production:

$$E_j = \frac{L_j}{X_j} \quad \text{Analytical expression 9}$$

Where “ $L_j$ ” is the number of employees by sector “j”, and “ $X_j$ ” is the current level of production of this sector, and therefore “ $E_j$ ” will be the multiplier of direct employment.

$$\text{Employment Multiplier} = E_j * \text{BR} \quad \text{Analytical expression 10}$$

Where BR is, again, the interior inverse coefficient matrix.

Applying this multiplier directly on production figures (turnover) and using corresponding coefficients of income and employment (expressions 8 and 9), we obtain the induced impacts on income (GDP in our case) and employment, respectively.

### *The technological structure*

To calculate the potential technology relationships within a regional economic structure we use a method based on the input-output framework. From the I-O inverse matrix, Jaffe (1986) uses the following expression to measure the cosenic distance between a pair of sectors “i” and “j”:

$$w_{ij} = \frac{\sum_k a_{ik} a_{jk}}{\sqrt{(\sum_k a_{ik}^2)(\sum_k a_{jk}^2)}} \quad \text{Analytical expression 11}$$

Where “ $w_{ij}$ ” is the new coefficient from the I-O inverse matrix which ranges from 0 (total technological inequality) to 1 (total technological equality), and “ $a_{ik}$ ” and “ $a_{jk}$ ” are the I-O inverse matrix coefficients calculated from the expression 3 before:

Following Frenken et al. (2007) and Los (2000), “ $w_{ij}$ ” coefficient can be considered a good proxy for technological proximity. Using MDS technique (Multidimensional Scaling) we can represent the technological distances between sectors for a given regional economy and obtain the evolution between two different periods. The comparison between sectoral performances leads us to identify the related variety possibility frontier (see note 9).

### 3.2 Identification and analysis of the entrepreneurial discovery process case: the qualitative approach

The quantitative methodology proposed previously will allow to identify the frontier of the possibilities gives by the economic specialisation pattern at regional level. Then, the next step must be focused on identifying the areas (economic sector and clusters) within that frontier that could host entrepreneurial discovery processes originated by radical innovations. Here we propose a qualitative methodology for the entrepreneurial processes analysis following GREMI<sup>53</sup> approach. This methodology mainly focuses on the following aspects:

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<sup>53</sup> GREMI – Groupe de Recherche Européen sur les Milieux Innovateurs. See Del Castillo et al. (2012)

- Participatory strategic processes (participatory governance of the entrepreneurial processes and its innovations).
- Challenge/opportunities identification (window of opportunity).
- Potentialities within the processes from a regional perspective.
- Business model behind the entrepreneurial discovery process and innovations
- Quadruple helix analysis and roles identification.

## 4. FINDINGS

### 4.1. A great socioeconomic transformation in terms of regional development

According to the figures of INE<sup>54</sup> and EUSTAT<sup>55</sup>, today the Basque Country is one of the wealthiest regions in Spain, with a GDP per capita 36% higher than European Union 27, and 32% higher than Spain's average in 2010. Nevertheless, this outstanding situation has not been an unchanged pattern for the whole 20th century. Industrial activities (related mainly to metal manufacturing) dominated the regional economic structure during the past century, providing the Basque Country with one of the highest economic growth rates in Spain until the second half of the 70s (Del Castillo 1987). At the end of the 70s, the Basque industry became obsolete, and a change in the international competitive model lead to a deep economic crisis during the late 70s and the 80s. Unemployment rates rose dramatically to nearly 20%, with many businesses closing, and the social landscape worsened accordingly (Azua 2006). Besides, the resource intensive industry dramatically degraded the environment in the most populated areas of the region, limiting its capacity to launch other economic activities.

In this context, the incoming regional government<sup>56</sup> defined and implemented a complete industrial and technological policy in order to modernize and transform the obsolete Basque economy into intensive innovation (Del Castillo and Paton 2010a). In parallel, the Basque Government also managed to introduce some initiatives to improve the environmental situation of the region (Arto 2010). One remarkable aspect is that to a certain extent, the industrial and technological efforts were combined with the environmental ones, considering that the success in one of them necessarily implied the success in the others<sup>57</sup> (Ashford 2010).

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<sup>54</sup> INE –Spanish National Institute of Statistics

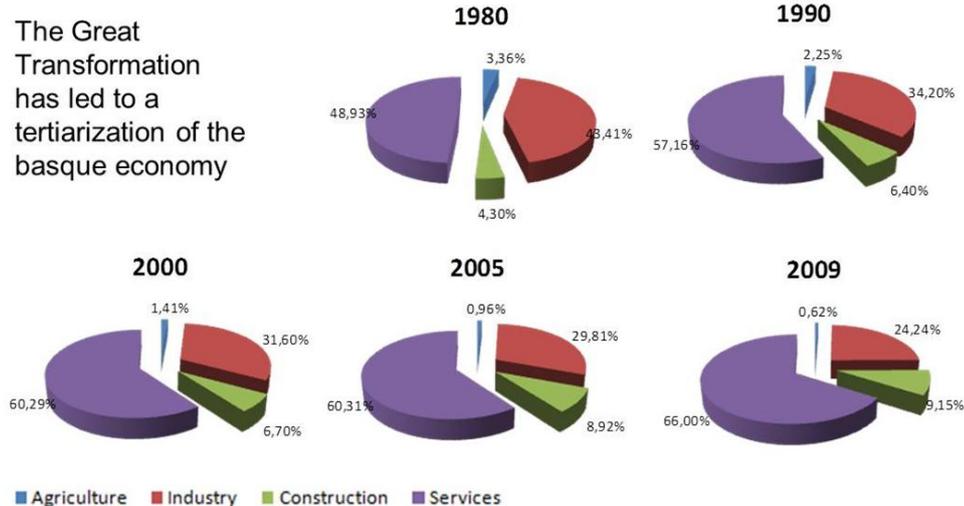
<sup>55</sup> EUSTAT – Basque Institute of Statistics

<sup>56</sup> After the decentralisation occurred in Spain during the early 80's, the Basque Government acquire many competencies in fields such as fiscal policy and economic promotion. To a certain extent, its ability to define and implement its own industrial and technological policy can be considered as one of the main causes of a better recovery after the middle 70's crisis.

<sup>57</sup> One clear example is the creation of the technology parks as spaces for hosting high-tech activities with an environment friendly approach (Del Castillo and Diez 2006)

Nowadays, after 30 years of this kind of efforts, the Basque Country has become an advanced economy, with a world-class competitive industry in certain activities and a service sector that represents 70% of regional GDP mainly focused on the knowledge economy (EUSTAT 2010). On the other side, the environment has improved significantly and, as some theories state (Florida 2002 and 2005) it may have favoured the allocation of talent and knowledge intensive activities. Anyhow it seems that the overall situation comparing to that of the 80s could be assessed as positive.

**Figure 2. Basque economic structure evolution since 1980**

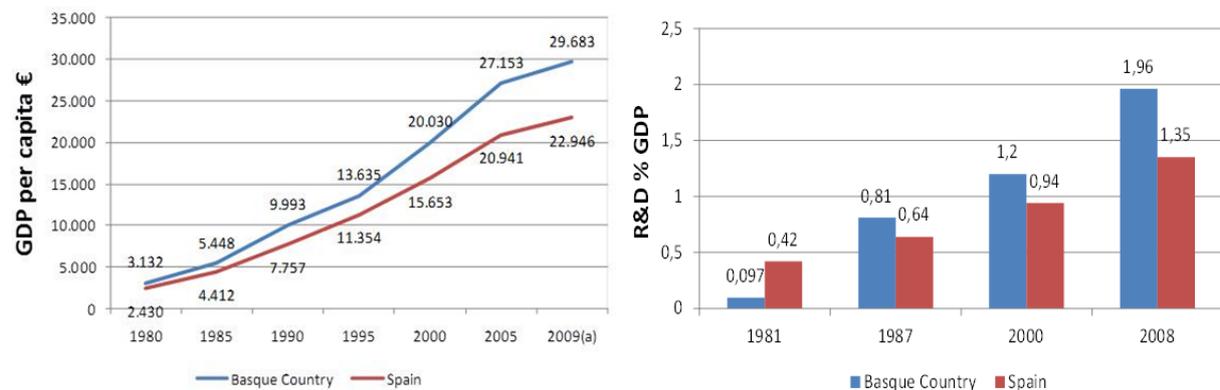


Source: Authors from EUSTAT 2010

This transformation was based on an innovation intensive pattern (Jaureguizar 1996) that contributed to a better performance in comparison to Spanish average. One remarkable aspect behind this process is that the transformation was not only a result of the progressive modernization of the Basque industry per se, but it was also related to the adaptation of industrial heritage and regional assets to the new competitive trends, where other aspects such as social issues and environmental conditions were also critical.

Public policy played an important role since it not only defined the measures needed, but also ensured different frameworks for the different fields. Thus, Basque Government tried to accompany industrial and technology measures with other support frameworks focused on broad context conditionalities not necessarily linked to economic promotion, but at the same time critical to trigger and multiply their effects (e.g. policies focused on social or environmental conditions) (Basque Government 2010)

**Figure 3. Basque economic growth, R&D effort since 1980 and main socioeconomic indicators**



|                                   | <i>BC</i> | <i>SP</i> | <i>DE</i> | <i>FR</i> | <i>IT</i> | <i>UK</i> | <i>SE</i> |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GDP p.cap. (PPC–UE27:100) (2009)  | 136       | 104       | 116       | 107       | 102       | 116       | 120       |
| Lab Prod (PPC–UE 27:100) (2009)   | 130.3     | 110.0     | 104.6     | 124.5     | 108.5     | 109.2     | 108.8     |
| R&D investment (%GDP) (2008)      | 1.85      | 1.35      | 2.63      | 2.02      | 1.18      | 1.88      | 3.75      |
| Degrees in S&T (per 1,000) (2007) | 27.2      | 11.2      | 11.4      | 20.7      | 12.1      | 17.5      | 13.6      |
| Employment rate (%) (2009)        | 65.2      | 59.8      | 70.9      | 64.2      | 57.5      | 69.9      | 72.2      |
| % pop sec edu (%) (2008)          | 78.0      | 60.0      | 74.1      | 83.4      | 76.5      | 78.2      | 87.9      |
| Welfare exp. per cap (€) (2007)   | 5,156     | 3,925     | 7,408     | 8,007     | 5,812     | 7,291     | 9,744     |
| Internet at home (%) (2009)       | 60        | 54        | 79        | 63        | 53        | 77        | 86        |
| Greenhouse emissions -2010        | 114.0     | 115.0     | 79.0      | 100.0     | 93.5      | 87.5      | 104.0     |
| Energy intensity -2007            | 146.3     | 184.2     | 151.5     | 165.4     | 142.8     | 115.5     | 156.5     |

Source: Data from Eustat 2010

As the figures show, the increasing efforts for modernizing the obsolete Basque economy reached good results in quite a short time (Olazarán and Lavía 2000 and EUSTAT 2010). In 1981 the R&D expenditure in terms of regional GDP only accounted for less than 0.1%, which is quite below the Spanish average of 0.42%. But astonishingly, only six years later the Basque R&D overcame the national average and it nowadays stands as one of the highest, with 1.96% of total regional GDP (compared to 1.35% of the Spanish average).

The anchoring process can be clearly observed through nearly 30 years, comparing the evolution in innovation effort and main socioeconomic indicators of the Basque country and of its counterparts at national and European level.

#### **4.2. A great transformation in terms of regional economic structure**

From a traditional point of view, economic specialisation patterns are processes from which some activities get more sophisticated than others (Porter 1990 and 1998, and Ketels 2006). In our opinion, these patterns are the sources of related variety exploitation opportunities and the potential entrepreneurial discovery processes.

Following these premises and the methodology developed previously in analytical expressions 1 to 10, specialization patterns have been calculated for the Basque Country. The analysis considers the level of specialisation of various sectors in terms of the Spanish average, their level of imbrication (in terms of number of sectors in its value chain), their spatial concentration and their impact in terms of employment and GDP.

According to the results obtained from the application of this methodology to the Basque Country, the region shows a strong industrial profile (activities linked to metal manufacturing) and some advanced services (specialised services to industries, creative and cultural industries and tourism).

A total of 11 natural specialization fields have been identified ranging from quite big and heterogeneous sectors (metal manufacturing and specialised services account for nearly 10%

of direct employment and GDP) and very narrow and sophisticated ones (energy, machinery-electric material and manufacturing of vehicles account for more than double the specialisation coefficient regarding the Spanish average for those sectors).

**Figure 4. Specialisation patterns in the Basque Economy: main economic clusters**

| <i>CNAE 2009<br/>(Two digits)<br/>Sector</i> | <i>Specialisation<br/>coefficient (1)</i> | <i>Number<br/>of<br/>sectors</i> |              |               |              | <i>Spatial<br/>Heterogeneity<br/>Index</i> | <i>Spatial<br/>Heterogeneity<br/>Index<br/>(%) (2)</i> | <i>% direct<br/>regional<br/>employment</i> | <i>% direct<br/>regional<br/>GDP</i> | <i>Total<br/>empl.<br/>(3)</i> | <i>%<br/>GDP<br/>total<br/>(4)</i> |
|--|---|----------------------------------|--------------|---------------|--------------|--|--|---|--------------------------------------|--------------------------------|------------------------------------|
|  |   | <i>Ring1</i>                     | <i>Ring2</i> | <i>Ring 3</i> | <i>TOTAL</i> |  |  |   |                                      |                                |                                    |
| Paper industry                               | 134.53                                    | 9                                | 4            | 2             | 15           | 0.75                                       | 98.96  | 0.55  | 0.67                                 | 1.02                           | 1.23                               |
| Energy                                       | 216.59                                    | 10                               | 2            | 2             | 14           | 0.99                                       | 130.29   | 0.10  | 0.94                                 | 0.11                           | 0.98                               |
| Metal manufacturing                          | 186.43                                    | 11                               | 1            | 1             | 13           | 0.70                                       | 91.66  | 9.14  | 9.32                                 | 18.02                          | 18.38                              |
| Machinery and electric material              | 246.46                                    | 9                                | 1            | 3             | 13           | 0.76                                       | 100.02   | 4.30  | 4.62                                 | 7.5                            | 8.12                               |
| Automotive                                   | 128.71                                    | 13                               | 0            | 1             | 14           | 0.78                                       | 102.78   | 1.35  | 1.62                                 | 2.91                           | 4.46                               |
| Manufacture of other vehicles                | 226.95                                    | 10                               | 1            | 1             | 12           | -  | -  | 0.85  | 0.70                                 | 1.73                           | 1.42                               |
| Environment                                  | 111.39                                    | 15                               | 3            | 2             | 20           | 0.73                                       | 96.64  | 0.09  | 0.12                                 | 0.15                           | 0.19                               |
| Trans. & logistics                           | 146.90                                    | 10                               | 1            | 1             | 10           | 0.96                                       | 125.84   | 0.07  | 0.15                                 | 0.10                           | 0.22                               |
| Specialized services                         | 184.45                                    | 12                               | 0            | 1             | 13           | 0.84                                       | 110.11   | 9.82  | 7.57                                 | 17.78                          | 12.68                              |
| Welfare services                             | 187.23                                    | 14                               | 1            | 1             | 16           | 0.78                                       | 102.58   | 1.23  | 0.62                                 | 2.03                           | 1.039                              |
| Creative and cultural activities             | 111.08                                    | 10                               | 1            | 1             | 12           | 0.74                                       | 97.55  | 1.62  | 1.27                                 | 2.81                           | 2.21                               |
| <b>TOTAL CLUSTERS<br/>(% REGIONAL )</b>      |   |                                  |              |               |              |  |  | <b>29.12</b>                                | <b>27.6</b>                          |                                |                                    |

Source: authors from Del Castillo and Paton (2010b). Data from INE, Regional Economy Accounts and DIRCE. EUSTAT. Regional Economy Accounts. Input-Output tables 2005

- (1) CE>110% average of the 3 criteria
- (2) % of regional average
- (3) (direct + induced) regional
- (4) (direct + induced) regional

Since the beginning of the reindustrialisation period by mid 80s, the competitive transformation of the Basque Country has focused on a clear phenomenon by which industry reinvented itself into a completely modernised and highly technology intensive one. That has supposed a strong specialisation, where sectors become increasingly different from each other. Services have registered a similar pattern, many of them becoming highly knowledge intensive activities. But in parallel, within related economic groups, new business models have arisen as a result of technological hybridization (related variety exploitation).

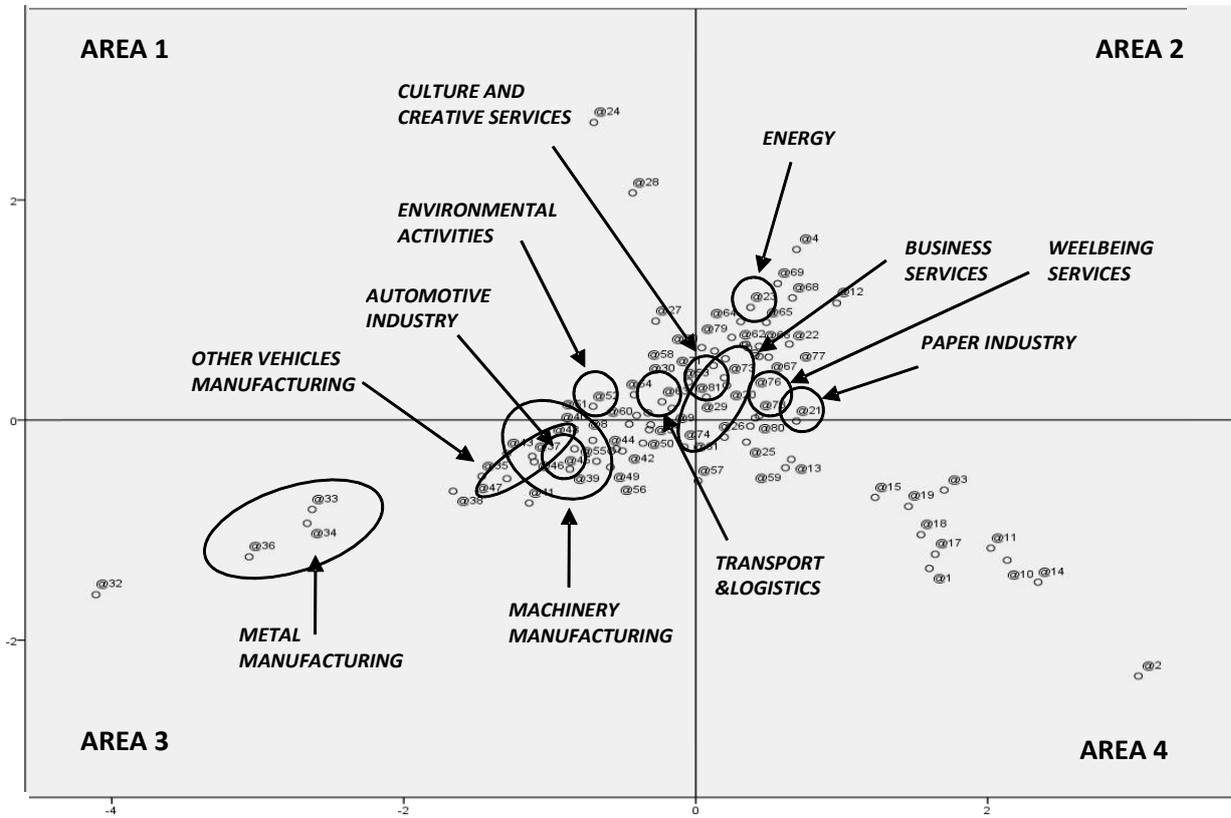
The question now is whether this new business models emergence is something systematic (structural) or just an isolated phenomenon due to random phenomena (cojunctural), and not a result of anchoring process of them. In this paper we propose a method (expression 11) to search for sectorial convergence at macro level using a cluster dynamic analysis approach, and systematize the process of identification potential niches of related variety exploitation possibilities through entrepreneurial processes. Although Porter (1990) explained how countries move from the “factor driven stage to the “wealth-driven stage” through the “innovation driven stage”, his cluster analysis has mainly focused on studying their structure and performance from a static perspective. However, we have added a dynamic dimension to the traditional cluster analysis, trying to identify the general pattern of evolution within the natural clusters of Basque Country (listed in figures 5 and 6)

Thus, the figures below show four different areas depending on the technological nature of their sectorial concentration<sup>58</sup>. The two main areas 2 and 3 are related to services and industry activities respectively. Area 4 (bottom-right) focuses on primary inputs activities and area 1 (top-left) does not represent a specific economic activity (but a transition stage).

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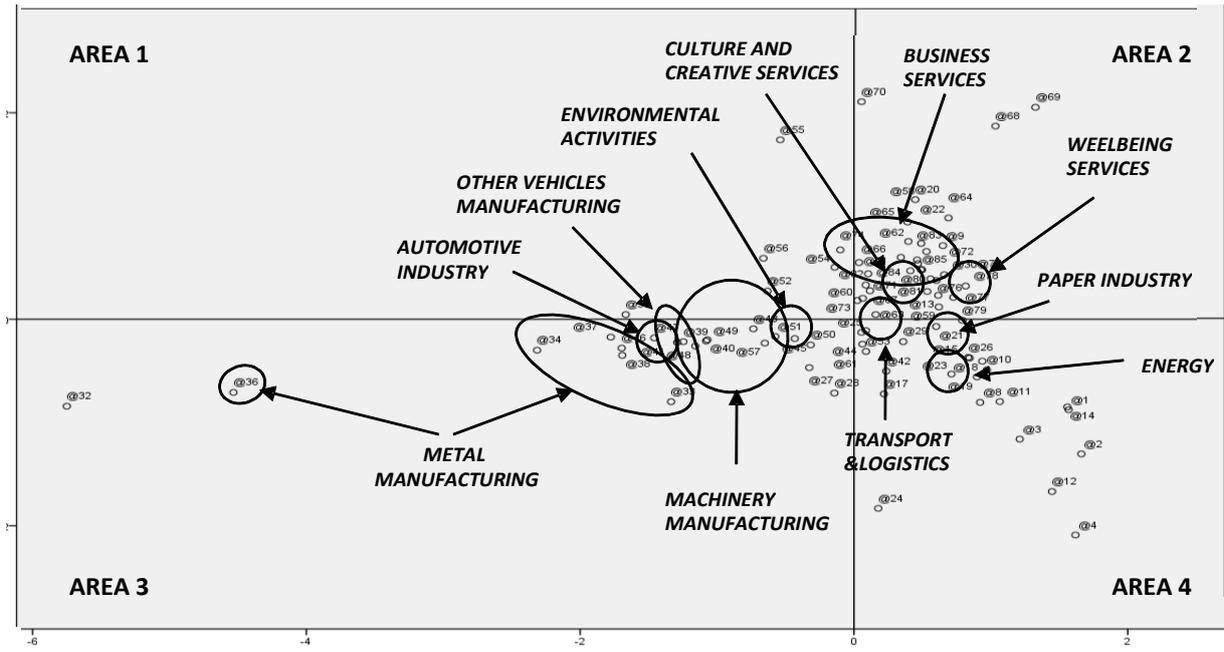
<sup>58</sup> Notice that this distribution is particular to the Basque Country economic structure reflected in its I-O tables. If the same exercise is applied in other region, the distribution may differ.

**Figure 5. Basque specialisation technology patterns in 1995**



Source: Authors. Data from EUSTAT: Input-Output tables 1995

**Figure 6. Basque specialisation technology patterns in 2005**



Source: Authors. Data from EUSTAT: Input-Output tables 2005

As we can see in figures 5 and 6, although Basque economic structure has experienced minor changes since 1995, if we quantify the precise movement of each sector, we can perceive a certain evolution pattern. In other words, if a given position in the chart defines a specific relative technology situation for a cluster (the nature of the productive process itself) a change in its relative position necessarily implies an indirect change in its technology nature.

The table below shows the coordinates of each cluster in the period 1995-2005, the change experienced across areas and quantifies the total movement intensity through a Change Index -CI<sup>59</sup>. Some clusters (paper industry, welfare services and creative and cultural activities) are not experiencing a significant change in its technological position. All off them continues in 2005 in the same area than in 1995 and the CI is lower than 0.48.

**Figure 7. Basque technological specialisation patterns evolution between 95-05**

| <i>Sector/cluster</i>            | <i>1995</i>       |                   |             | <i>2005</i>       |                   |             | <i>Change Index (CHI)</i> |
|----------------------------------|-------------------|-------------------|-------------|-------------------|-------------------|-------------|---------------------------|
|                                  | <i>Coor. DimA</i> | <i>Coor. DimB</i> | <i>AREA</i> | <i>Coor. DimA</i> | <i>Coor. DimB</i> | <i>AREA</i> |                           |
| Paper industry                   | 0.68              | -0.01             | 4           | 0.60              | -0.07             | 4           | 0,14                      |
| Energy                           | 0.37              | 1.02              | 2           | 0.71              | -0.53             | 4           | 1,89                      |
| Metal manufacturing              | -2.37             | -0.87             | 3           | -2.89             | -0.52             | 3           | 0,87                      |
| Machinery and electric material  | -0.84             | -0.35             | 3           | -1.03             | -0.16             | 3           | 0,38                      |
| Automotive                       | -1.12             | -0.33             | 3           | -1.69             | -0.28             | 3           | 0,62                      |
| Manufacture of other vehicles    | -0.99             | -0.35             | 3           | -1.30             | -0.22             | 3           | 0,44                      |
| Environmental act.               | -0.32             | 0.06              | 1           | -0.57             | -0.16             | 3           | 0,47                      |
| Transport & logistics            | -0.23             | 0.16              | 1           | 0.15              | 0.04              | 2           | 0,5                       |
| Specialized services             | 0.24              | 0.05              | 2           | 0.20              | 0.19              | 2           | 0,18                      |
| Welfare services                 | 0.43              | 0.03              | 2           | 0.55              | 0.39              | 2           | 0,48                      |
| Creative and cultural activities | 0.19              | 0.38              | 2           | 0.41              | 0.46              | 2           | 0,3                       |

<sup>59</sup> The Change Index is a measurement of the differences of relative positions experienced by sector/cluster due to its technological nature change. For a complete description of the index see Del Castillo and Paton (2011)

Source: Authors

On the contrary, the energy cluster is changing significantly from the second area to the fourth. According to our hypothesis, the cluster may be evolving to a different business model. As it enters area 2 we can identify this change as a search for new inputs (i.e. new energy sources and its combination with other activities).

Other remarkable movements are those identified in industry and services activities because of their share and impact in the regional economy. In industry metal manufacturing and automotive sector are moving towards a more pronounced specialization (inside area 3). Machinery manufacturing and electric materials, and manufactures of other vehicles (such as ships and aerospace) are moving very slowly but towards area 1, that is, a prior stage to a more pronounced “tertiarisation” towards area 2. They are combining industrial production with a “customer oriented service”.

In addition to this, in services, activities that are knowledge intensive and business services begin to focus their activity to industry sector. It seems that these businesses begin to specialize in providing “solutions” to the vast business fabric existing in the Basque Country.

Finally, the environmental activities (mainly represented by recycling and water management activities) are also moving towards an industry oriented service, especially to those sector focused on metal manufacturing where the waste and the dangers of pollution are higher. Therefore, according to these results the link between the competitive transformation towards a sustainable innovation and the smart specialisation elements seems to be positively correlated. Here a sound specialisation process is being taking into account while an exploitation of the related variety is pursued it is recently observed.

In order to identify the related variety possibility frontier, distances between different pairs of clustered sectors can be observed aggregating the value of the coordinates in figure 7<sup>60</sup> into a double entry (symmetric) matrix:

### Figure 8. Sectors within the related variety possibility frontier matrix

<sup>60</sup> For aggregation of coordinates A and B in 1995 and 2005 the following expression has been used:

$$A_{ij} = [(CoorDimA_{i95} - CoorDimA_{j95})^2 + (CoorDimB_{i95} - CoorDimB_{j95})^2] - [(CoorDimA_{i05} - CoorDimA_{j05})^2 + (CoorDimB_{i05} - CoorDimB_{j05})^2]$$

Where  $A_{ij}$  is the internal coefficient for the related variety possibility frontier identification matrix (figure 8)

|                                      | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10   | 11 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|----|
| 1) Paper industry                    | 0     |       |       |       |       |       |       |       |       |      |    |
| 2) Energy                            | 0,77  | 0     |       |       |       |       |       |       |       |      |    |
| 3) Metal manufacturing               | -0,03 | 1,02  | 0     |       |       |       |       |       |       |      |    |
| 4) Machinery and electric material   | 0,14  | 0,47  | -0,17 | 0     |       |       |       |       |       |      |    |
| 5) Automotive                        | -0,38 | 0,19  | 0,35  | -0,48 | 0     |       |       |       |       |      |    |
| 6) Manufacture of other vehicles     | -0,04 | 0,41  | 0,01  | -0,18 | -0,3  | 0     |       |       |       |      |    |
| 7) Environmental act.                | -0,19 | 0     | 0,3   | 0,47  | -0,05 | 0,29  | 0     |       |       |      |    |
| 8) Trans. & logistics                | 0,52  | 0,33  | -0,43 | -0,26 | -0,78 | -0,44 | -0,73 | 0     |       |      |    |
| 9) Specialized services              | -0,16 | -0,13 | -0,27 | -0,1  | -0,62 | -0,28 | -0,55 | 0,38  | 0     |      |    |
| 10) Welfare services                 | -0,22 | -0,03 | -0,65 | -0,48 | -1    | -0,66 | -0,89 | 0,04  | -0,34 | 0    |    |
| 11) Creative and cultural activities | 0,16  | -0,47 | -0,47 | -0,3  | -0,82 | -0,48 | -0,77 | -0,04 | -0,1  | 0,38 | 0  |

Source: Authors

Note: figures in bold (+) shows a reduction of the overall technological distance between sectors

The related variety possibility frontier is composed for all those pair of sectors whose technological distances has been reduced Figure 8 presents a list of those sectors for the period 1995 and 2005. Although a number of related variety opportunities may be considered, here in this paper we are going to focus the work in one of them: the electric car case. This entrepreneurial discovery process can be indirectly observed in figure 8 in the intersection between the energy sector (column 2) and machinery and electric material, automotive, manufacture of other vehicles and transport and logistics (rows 4, 5, 6 and 8).

#### 4.3. The great transformation and the role of regional policy

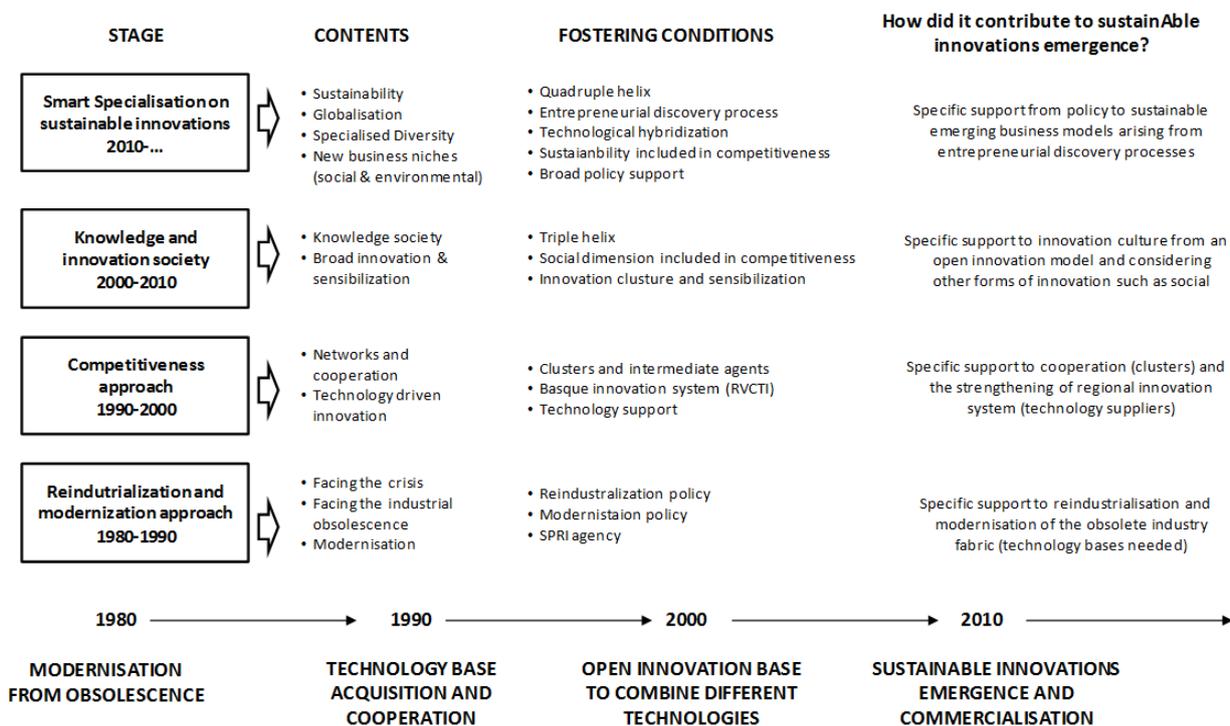
Although current related variety exploitation possibilities and the related entrepreneurial discovery processes in the Basque Country are the result of a complex combination of public policies, private commitments and context conditionalities regarding economic, social and

environmental dimensions, in this paper we will be analysing the roots of these processes and innovations from the industrial, technological and innovation policy perspective.

First of all, the Spanish regional decentralization, that came into force in 1979, allowed the new Basque Government to put huge efforts into boosting and supporting the revitalization of the regional economy (Del Castillo 1987) and to accompany them with other areas such as social and environmental ones (Barrero 2010 and Arto 2010).

According to Del Castillo (1987), in these type of situations (industrial decline) three different models can be differentiated regarding a typical industrial policy: a reindustrialization policy stage, a modernization stage and an innovation driven stage. After these three phases, more sophisticated policy measures are to be defined mainly deepening into the specialization patterns chosen during those first stages (Del Castillo and Paton 2010). In the case of the Basque Country, the current entrepreneurial discovery processes and the related variety exploitation possibilities are rooted in the industrial sectors supported during the reindustrialization in the 80s (1st stage), the specialization pattern promoted in the 90s through clusters (2nd stage) and the new technology domains that were encouraged during the 2000s (3rd stage).

**Figure 9. 1980-2010: towards entrepreneurial discovery processes anchored to territory**



Source: Del Castillo et al. (2012) “The Great Basque Transformation towards sustainable innovations”

As it can be seen on the table, there are some “linear” consequences arising from the 80s, where the choices made in the past determined the related variety possibility frontier afterwards. The table also shows a number of “fostering conditions” linked to each stage and the way by which they have determined the current Basque innovation model and the related variety possibility frontier for entrepreneurial discovery process<sup>61</sup>.

### ***1981-1990: main elements of the reindustrialization***

In the early 80’s, the Basque Country had a business fabric focused on mature and obsolete industrial activities that failed to be competitive in the increasing globalization context, widespread business “individualism” and unemployment rates above 20% (Azua 2006). Regarding science and technology context the Basque Country registered very low levels of R&D and a general unawareness on the concept of private R&D (Navarro 1993). Besides, the science and technology system was virtually non-existent, with a very young university unable to play a predominant role and no relevant public research bodies (Rico Castro 2007). To make matters worse, the bad environmental situation conditions (air pollution, resource and energy intensive productive patterns, etc.) limited the capacity of the region to host new high-tech activities or simply attracting talent.

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<sup>61</sup> A brief description of each stage and the relation to current entrepreneurial discovery processes in the Basque Country are provided following the periods described by some authors (Del Castillo and Paton 2010 and Jaureguizar 1996)

But the increased “autonomy” within the Spanish decentralization scheme to define and implement not only specific economic and industrial policies but also broad policy support in social and environmental fields, allowed the new Basque Government to lead the Basque modernization through a sound policy support and the resources to make it possible. Thus, the Basque Government fostered the creation and consolidation of a strong base for the Basque innovation system (the well-known Basque Technology Centres), the instruments needed to support business modernization (SPRI agency) and combined the modernization focus with a progressive environment friendly approaches (e.g. technology parks).

### ***1990-2000: The Basque competitiveness approach***

In the 90’s, as localization theories became an area of interest during the 90s, especially those related to “innovative milieus” and “clusters” (Becattini 1990 and Porter 1990), the Basque Government, along with the main businesses and innovation agents built a new strategy focused on economic specialization and collaborative approaches: the Basque cluster policy (Monitor Company 1991). Since the 90s, 11 cluster initiatives have been launched in the most strategic and competitive sectors as a common space for debate and discussion regarding competitive challenges and innovation tied to territory (Aranguren et al. 2009). Nowadays, eight additional emerging clusters have been included within the cluster policy support in order to include additional economic activities.

**Figure 10. Cluster initiatives launched since 1990**

| <b><i>SECTOR</i></b>      | <b><i>CLUSTER</i></b> | <b><i>YEAR</i></b> | <b><i>SECTOR</i></b> | <b><i>CLUSTER</i></b> | <b><i>YEAR</i></b> |
|---------------------------|-----------------------|--------------------|----------------------|-----------------------|--------------------|
| <b>Machine tools</b>      | AFM                   | 1992               | <b>Energy</b>        | Cluster de la Energía | 1996               |
| <b>Appliances</b>         | ACEDE                 | 1992               | <b>Aeronautics</b>   | HEGAN                 | 1997               |
| <b>Automotive</b>         | ACICAE                | 1993               | <b>Marine sector</b> | Foro Marítimo Vasco   | 1997               |
| <b>Environment</b>        | ACLIMA                | 1995               | <b>Paper (wood)</b>  | Paper Cluster         | 1998               |
| <b>Bilbao Port</b>        | Unipor Bilbao         | 1995               | <b>Audiovisual</b>   | EIKEN                 | 2004               |
| <b>Telecommunications</b> | GAIA                  | 1996               |                      |                       |                    |

Source: Aranguren et al (2009) “Asociaciones cluster de la CAPV: desempeños y retos”

From this moment on, the industrial policy (as well as the technological one) changed from a “top-down” approach to a “bottom-up” perspective (Moso and Olazarán 2001). The cluster associations launched intended to serve as mechanisms to identify and communicate the challenges and necessities of regional businesses, mainly regarding the knowledge and technology capacities of RTD developers (mainly technology centres) (Aranguren and Navarro 2003). Moreover, SPRI's programs were designed as collaborative projects to support collaboration between RTD developers and businesses from these cluster associations.

It was in this period when the roots of the anchoring capacities of Basque innovations appeared. On one hand, the cluster approach allowed for the Basque Government to recognize the needs of the businesses, identifying both technological and competitive trends to be prioritized (e.g. through cluster observatories). On the other hand, they also played an important role as intermediate agents to “territorialize” the results and support of R&D carried out by RTD developers. Finally, clusters set the start of intercluster collaboration, from which some of the current entrepreneurial discovery processes emerged (e.g. between energy and automotive sector and between their enterprises and RTD developers).

### ***2000-2010: The Basque knowledge economy***

The importance gained by technology development and innovation during the 80's and 90's reached its peak during the last decade (Del Castillo and Paton 2010). During the 00's, the Basque innovation system became even stronger with the creation of new agents (CICs - Centres of Cooperative Research, BERCs - Research Centres of Excellence, Innobasque-Basque Innovation Agency, Ikerbasque – Basque Research Agency, etc.).

In addition to the initiatives carried out by EVE (Energy Agency) and IHOBE (Environmental Agency) until this period, the inclusion of the social and environmental aspects within the regional competitiveness strategic vision (the Competitiveness Plan 2006-2009) contributed significantly to present them as elements of equal importance to economic innovation regarding regional competitiveness (Basque Government 2006).

Parallel to all these initiatives, the Basque Government also promoted a sectorial economic diversification with the aim of developing new emerging markets. The result was the definition of Biobask 2010 Strategy (for the biotech sector), Nanobasque 2015 Strategy (nanotechnology) and Tourgune (tourism sector) and their respective agencies.

### ***2010-...: Towards a smart competitiveness***

Recently, the Basque Government, along with the main agents of regional socioeconomic fabric, has elaborated the new Competitiveness Plan 2010-2013. In this Plan, the issues of economic competitiveness, social and sustainable aspects focus the debate on innovation as the core source.

The main characteristics of this new Plan can be summarized as following: (1) it envisages specialisation through a more technological, knowledge intensive and entrepreneurial society, (2) it envisages economic sustainability through a continuous redefinition of its economic structure bases on the exploitation of Basque related variety, (3) it envisages environmental sustainability through new priorities such as energy efficiency, renewable sources and the economic opportunities behind the Eco-industry sector, and (4) it envisages social prosperity through a participatory governance and empowered participation of the entire society.

The Plan clearly supports flagship projects resulting from entrepreneurial discovery processes and related variety exploitation. One clear example is the importance gained by the energy sector and its potential for other economic activities through energy efficiency solutions (automotive sector, ICT, construction, manufacturing goods etc.).

## **5. IMPLICATIONS**

### **5.1. The case of an entrepreneurial discovery process from regional related variety exploitation: the electric vehicle**

The electric vehicle case emerges undoubtedly from the Basque Great Transformation economic, social and environmental heritage. At policy level, the experience gained since the 80s allowed Basque Government to establish a strategic definition process that identified the potentiality behind sustainable innovations in general, and the electric vehicle in particular, as a means to face some traditional weakness of the Basque economy such as the low capacity to generate radical innovation. Moreover, this process enables the consensus and the commitment through a quadruple helix approach.

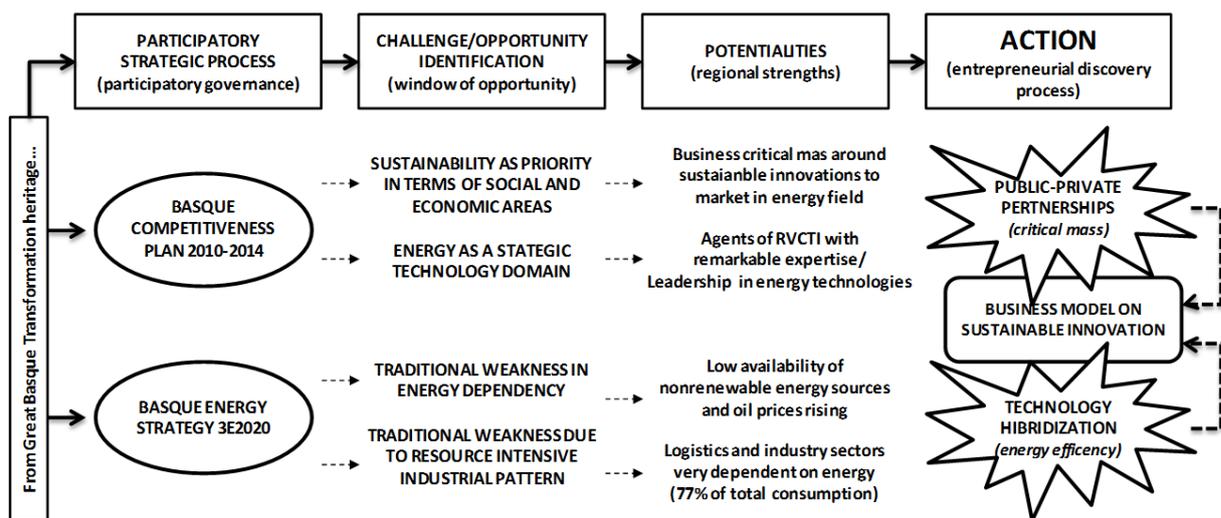
From a broader competitiveness approach, the Competitiveness Plan 2010-2014 identified the economic opportunity behind the environmental challenges through a regional participatory process and also established energy as one of the main “key enabling technologies” (KET) for the regional competitive advantage at international level (Basque Government 2010). In parallel, but inside the framework of the Competitiveness Plan, the Basque Energy Strategy 3E2020 was identified and set as a priority, therefore facing the traditional weaknesses of

energy dependency due to the lack of fossil energy resources and the high energy intensive productive pattern of the industry (Basque Government 2011).

The choice for a sustainable green business model was not made arbitrarily. Both strategies identified a regional strength in the Basque innovation system (RVCTI) where some technology centres, the newly created CICs and research groups from regional universities maintain a frontline position in technologies related to energy efficiency and storage. Regarding businesses, there was a critical mass behind the advance of the engineering sector (GAMESA, SENER etc.) and the energy companies (IBERDROLA).

This critical mass, both in economic and technological terms, has been favoured by 30 years of industrial and technology policies. But beyond that, one of the main success factors of the process, the partnership created to commercialize the new opportunity, could have not been possible without the policy support to networks and collaboration since the 90s. The partnership, based on a quadruple helix (Basque Government through DG Industry and EVE and SPRI agencies), private sector (main automotive enterprises from the Automotive Cluster and the Energy Cluster), RTD developers (technology centres such as Tecnalia and IK4, regional universities and CIC Nanogune and Energigune) and some end-users (e.g. transport and logistics businesses, retailers or municipalities) make the complex combination of technology (technological hybridization) between automotive solutions and energy efficiency possible, as well as the definition of an integrated business model.

**Figure 11. The electric vehicle roots: from heritage to action**



Source: Del Castillo et al. (2012) "The Great Basque Transformation towards sustainable innovations"

The electric vehicle is the experience of an entrepreneurial discovery process rising from the identification of strategic opportunities within energy constraints (nearly 78% of the total energy consumed in Basque Country comes from industry and logistics sectors) and climate change threats. The Competitiveness Plan 2010-2013 and the Energy Strategy 3E2020 established both of them as priorities. Thus, sustainability becomes not only business opportunities but also environmental improvements. That has led to the configuration of a public-private partnership to develop the initiative of the electric vehicle; a sustainable innovation from the technological hybridization between automotive and energy sectors.

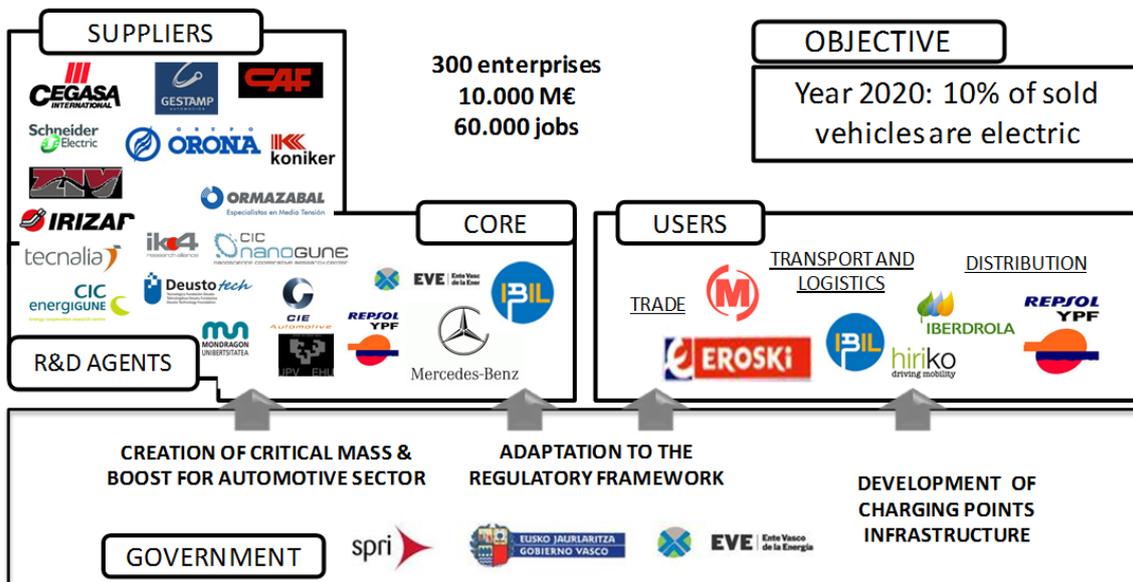
In 2010, the Basque Government, Automotive Cluster (ACICAE), AIC Automotive Intelligent Centre and Mercedes-Benz signed an agreement to develop and commercialize a new electric vehicle model. In October of that year the Basque Government and REPSOL (Spanish oil company) created IBIL to develop the electric vehicle model (charging point management mainly, car-sharing, etc.) within the Basque Country territory. Its competitive advantage lies on its specific distribution model.

IBIL market share lies upon those users whose travelling frequency is very high but do not travel long distances since the electric vehicle has autonomy for no more than 150-170 km. This vehicle has significant advantages over the traditional one for urban commuting as well as for medium (or big) fleets of certain retailers (e.g. EROSKI) or public entities (e.g. Osakidetza – health Basque service-, municipalities etc.). The conceptualization of the management model is a central pillar for the success of this business (market segmentation, charging points distribution, agreement with energy distributors, with technology providers and vehicle producers, etc.).

As it may be seen, the management model for electric vehicle comprises a complex quadruple helix where the core was initially configured by Mercedes-Benz (the OEM manufacturer), REPSOL (the energy distributor through charging points), the Basque Government (through EVE agency) and the public-private initiative IBIL responsible for the development and commercialization of this business model. In this quadruple helix RTD

developers (CICs, technology centres, universities, frontline R&D and engineering firms, etc.) play a significant role as supporters of the whole concept (energy efficiency applied to automotive solutions).

**Figure 12. The quadruple helix behind the electric vehicle**



Source: Del Castillo et al. (2012) "The Great Basque Transformation towards sustainable innovations"

Users are also integrated in the partnership through distribution channels (REPSOL), transport and logistics activities and the trade sector (EROSKI). Public procurement has been (and will be) one of the main fostering elements, due to the important tractor effect through public fleets (municipalities' projects such as HIRIKO, Osakidetza, etc.). Finally, Public Authorities have played a central role in encouraging and facilitating the elements needed to launch the initiative (IBIL) and will play a bigger role when adapting the current regulatory framework and the public procurement mentioned.

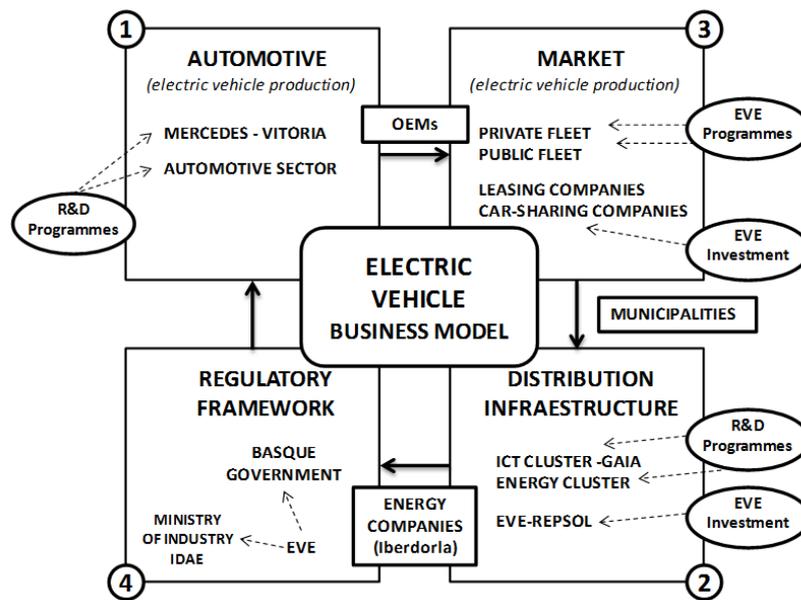
The electric vehicle business model lies upon 4 main key axis for its consolidation as a real choice against non-renewable energy vehicles. The first of all, a strong automotive sector linked to energy efficiency solutions (technological hybridization between automotive and energy activities). Secondly, a progressive increase in the demand for this kind of vehicles from both public-private fleets and individual consumers. Thirdly, the investment required for an optimal distribution infrastructure (charging point) along the Basque (and national) geography. Finally, the definition/adaptation of the current regulatory framework to favour the emergence of the commercialization model of the electric vehicle, even with positive discrimination measures due to its impact on the environment.

Regarding the first axis, the Basque Country hosts an OEM producer (Mercedes-Benz in Vitoria) and a very important critical mass of TIER 2 and 3 producers. In addition to them, the region also hosts a number of important electric components manufactures and energy companies that also participated in the process. The Basque Government supported the emergence of the initiative both through specific programs and collaborative dynamization.

Regarding the second axis, at a start the electric vehicle went into public fleets, where municipalities and other public entities (e.g. Cruces Hospital) played an important role. Secondly it started to be used by a private fleet by some big market retailers (e.g. EROSKI, Orona etc.) and car leasing, and they were created instruments to facilitate the sharing in parking lots and public places (IBILEK).

The third axis was developed under the agreement between the Basque Government and REPSOL to identify the international trends in electric vehicle charging possibilities and a viability study with the aim of implementing it at regional level. The objective here is to foster the creation of multiple charging points for these new vehicles. The collaboration between these two entities and the Energy Cluster as well as the ICT Cluster favoured the technological base of this collaboration.

**Figure 13. The business model of the electric vehicle**



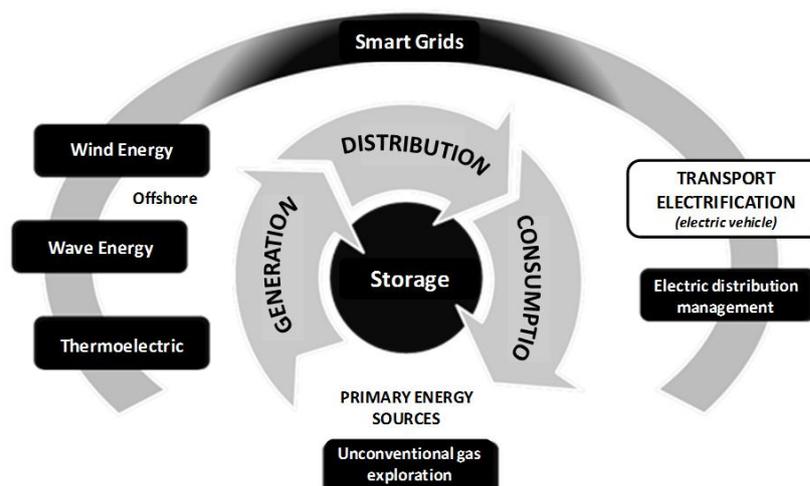
Source: Basque Energy Entity - EVE

Finally, in the fourth axis, the electric vehicle model was fostered thanks to a change in the general legal framework for the electric sector with the introduction of the new legal form “electric operator” that regulates the charging manager entity. In fact, IBIL was created in 2010 for this new legal form as a public-private partnership between EVE and REPSOL. In addition to that, since the main regulatory framework lies under Central Government, the Basque Government is working with IDEA (Spanish Institute for Energy) and the Spanish Ministry of Industry (MINETUR) to develop and adapt the current legal framework to the necessities of this new business model.

## 5.2. The roots of the electric vehicle case: the role of regional place based public policy support

As mentioned, the electric vehicle initiative arises from the strategic conceptualization carried out by the Basque government in the Competitiveness Plan 2010-2014 and the Basque Energy Strategy 3E2020. In the Competitiveness Plan, the electric vehicle plays a central role as one of the flagship projects for its three strategic axes: as a new technology intensive activity arising from business-knowledge agents' cooperation, as a global competitive business model, and as a technological solution to energy constraints and climate change. Within the Energy Strategy, the electric vehicle is one of the results from energy efficiency applied to storage R&D efforts at regional level. Basque Country aims to lead the technological change in renewable energies in generation, distribution and consumption. In this strategy the "transport electrification" is one of the pillars and probably one of the most profitable initiatives that are nowadays running in the regions regarding energy efficiency.

Figure 14. The electric vehicle within the Basque energy strategy



Source: Basque Energy Entity (EVE) EnergiBasque Strategy

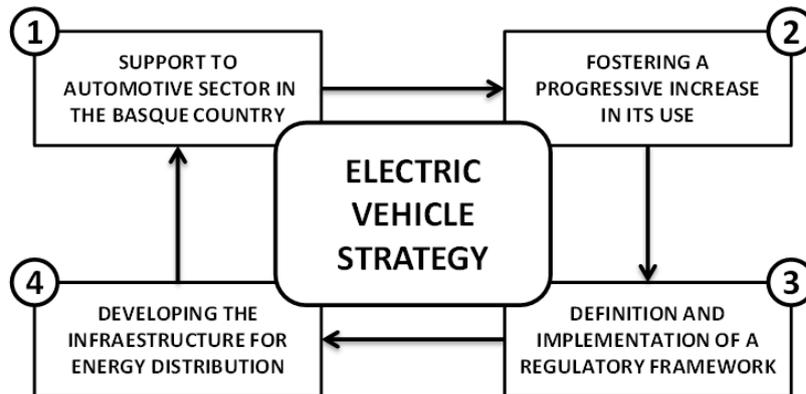
But in addition to these strategies defined from an economic perspective (from the Department of Industry of the Basque Government), the electric vehicle initiative also takes part as a priority for environmental ones. EcoEuskadi Strategy 2020 (defined from Department of Environment of the Basque Government) highlighted as a priority “minimizing energy dependency against fossil energies and reducing greenhouse gas emissions and climate change” (Basque Government 2011) with one of its strategic lines specifically focused on energy efficiency and reduction of energy consumption.

From a more technological perspective, the new Science, Technology and Innovation Plan (PCTI 2015) is included as one of the key enabling technologies to support the energy field. Specifically, the electric vehicle lays in the intersection between “mobility”, “transport” and “energy” technological priorities. The strategic objectives established for the electric vehicle flagship project account for 41,000 new electric vehicles and a range of 7,000 to 13,000 charging points over Basque Country until 2020.

Public Authorities have been one of the most important agents in the quadruple helix of the electric vehicle flagship project. From the business model designed for the exploitation of the electric vehicle, the Basque Energy Agency (EVE) established a strategic approach to consolidate it, focused on 4 axes:

- 1) Automotive sector support, mainly through specific R&D programs that foster collaboration along the value chain of energy efficiency applied to automotive (business-to-business and business-RTD developers).
- 2) Promotion of a progressive increase in its use, where public procurement (such as that of municipalities) and public support programs to boost electric vehicles acquisition and adaptation (such as those from EVE).
- 3) Definition of a coherent and favorable regulatory framework, to reduce uncertainty in a market where the legal framework is crucial to make the business model flourish (certification, competition regulation, etc.).
- 4) Ensuring an energy distribution channel through infrastructures, because the business model of the electric vehicle is linked to the availability of a charging point and the fixed investment required is considerably high.

**Figure 15. The electric vehicle within the Basque energy strategy**



Source: Authors

## 6. COCLUSION

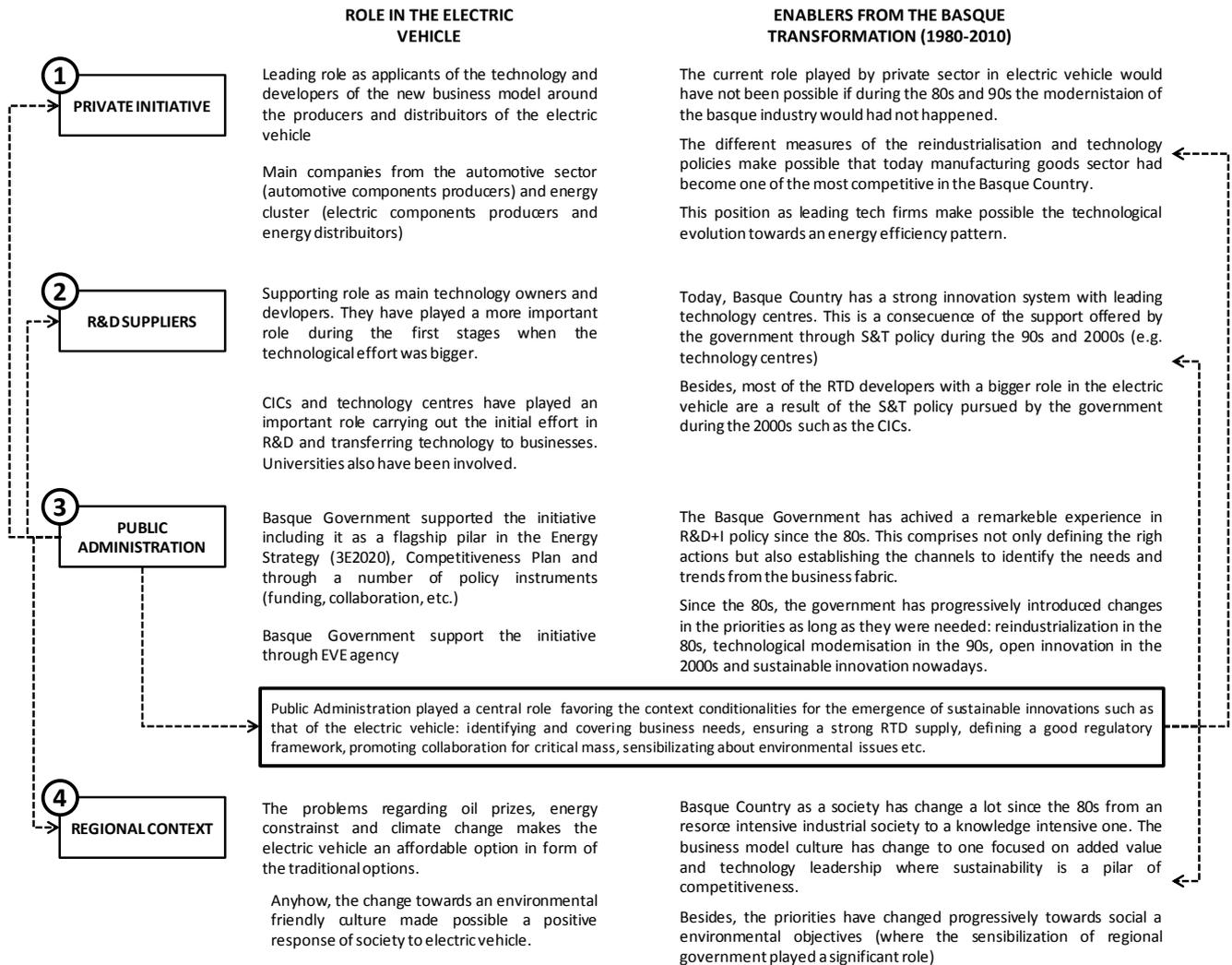
The Basque Country case is a clear example of how a quite long process known as the Great Basque Competitive Transformation has moved the traditional and obsolete Basque industry of the beginning of the 80s into a thriving one resulting in frontline entrepreneurial discovery processes, as the electric vehicle, explained by the new possibilities supported by the regional related variety. In this process a remark must to be made considering the role performed by the Basque Government, whose strategies and policy measures have guided the process for more than 20 years, and finally promoted the flagship project providing the support and the intermediation needed to formalize the partnership around the electric vehicle business model.

But the electric vehicle is only the peak of a bigger phenomenon known as the “Great Basque Transformation”, a complex process combining a series of economic, social and environmental dimensions from an historical perspective. The main idea here is that, to understand how entrepreneurial discovery processes emerge, consolidate and provide an anchoring effect on economic growth and prosperity to the territory, an interrelated analysis between socioeconomic and environmental conditionalities in the territory is needed and, last but not least, the heritage that determines them all. This is the context that could explain the way in which regional related variety performs.

The next table summarizes the elements under the success of sustainable innovations emergence and anchoring in the Basque Country focusing in the electric vehicle case. The summary shows the key elements to consider regarding the quadruple helix approach in the

Basque Country, the contribution of each agent typology to the electric vehicle flagship project and the causes from the Basque heritage that make it possible.

**Figure 16. The quadruple helix and the enablers from the Basque transformation heritage**



Source: Del Castillo et al. (2012) "The Great Basque Transformation towards sustainable innovations"

Regarding the future, we can speak about a new path of "sustainable" prosperity focused on achieving a twofold objective: (1) economic sustainability ensuring a coherent social and environmental context able to foster competitiveness and entrepreneurship through knowledge (long run economic growth through sustainable foundations), and (2) enough economic "health" to advance in the main social and environmental indicators. Those general objectives clearly define the idea behind the electric vehicle initiative and the strategy around it.

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## **PROBLEMS, CHALLENGERS AND ACHIEVEMENT AMONG ASNAF ENTREPRENEUR IN SELANGOR**

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### **ABSTRACT**

The evaluation of performance of a small scale business has been examined by previous literature. It based on the growth theory that stated that the establishment of a small scale business, generally begin with the initiative and the contribution of own capital or capital rationing from the informal sources. However, the previous findings have not generalized to all types of small business, in which they are believed to have heterogeneous characteristics. In Malaysia, a small business not only exist in conventional forms, however, in recent years,

some of the business clusters have been implemented by ‘asnaf’ entrepreneur. Moreover, the specific study to evaluate the achievement of small business is still lacking in the literature. Thus, to fill this gap, this study is implemented to evaluate the business achievement of “‘asnaf’ entrepreneur, to identify the strategy and challenge among the ‘asnaf’ entrepreneur who received the capital contribution in terms of zakat. This study is designed in terms of case study based on interview technique upon the most successful 'asnaf' entrepreneur in Selangor. A descriptive and content analysis is used to analyze the data.

Keywords: Entrepreneurs; asnaf entrepreneur; Small Business

## INTRODUCTION

In 2005, the Lembaga Zakat Selangor (LZS) established Asnaf Development Department (JPA) to implement asnaf entrepreneurship development program specifically to meet the needs of the target group (Hamdino Hamdan, Pazim Othman & Wan Sabri Wan Hussin, 2012). The implementation of the asnaf entrepreneurship program is a step towards enhancing the economic potential and the standard of life of the asnaf in a sustainable and self-reliant. **Table 1** shows the distribution of zakat amount allocated for asnaf business capital. Based on the figures in **Table 1**, was found an increase in the distribution pattern of zakat to asnaf (that is qualified) in the form of business capital with an average increase distributions over 7 years (from 2000 to 2008) which stood at 77.3 percent.

Based on the MAIS Audit Sample Report from 2004 to 2006 (Mais, 2007), found that the percentage of ‘*successful asnaf*’ Entrepreneurship Development Programme participants’ maintain and grow their business is small, only 9 percent (see **Figure 1**). While the percentage of participants who ‘*failed to continue the business*’ is about 32 percent. The percentage of participants who are ‘*still in business but no change in terms of total revenue generated from the business compared to the period before they do business*’ is about 48 percent. For participants who have a ‘*high potential for success in maintaining and growing a business*’ is about 32 percent.

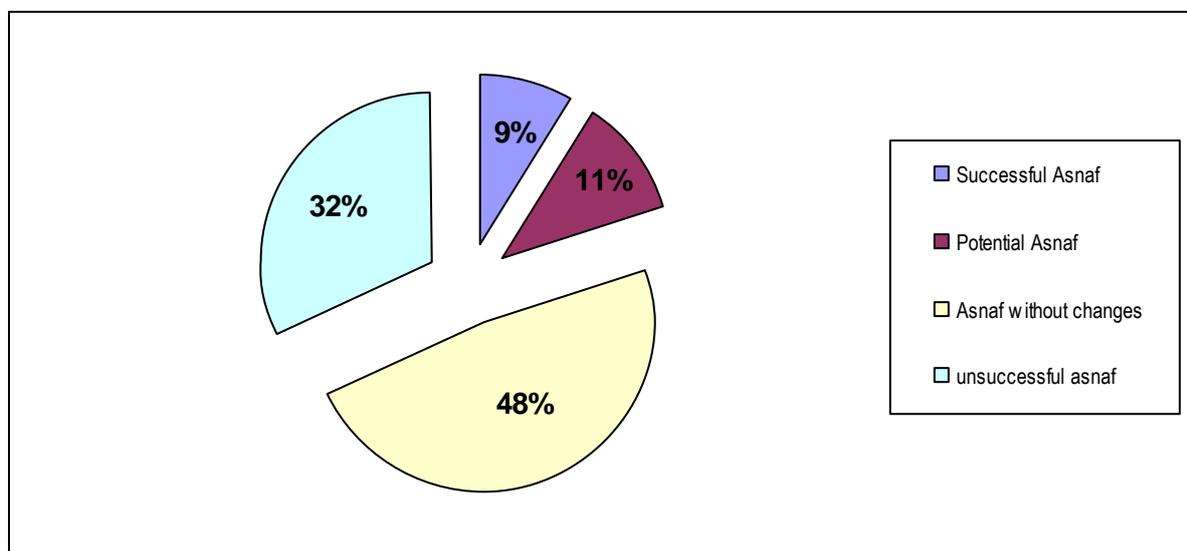
**Table 1 : Total Distribution Capital Assistance Economic Programme, 2000 - 2008**

| Type of Assistance              | 2000 RM | 2001 RM | 2002 RM | 2003 RM | 2004 RM | 2006 RM   | 2007 RM   | 2008 RM   |
|---------------------------------|---------|---------|---------|---------|---------|-----------|-----------|-----------|
| Business                        | 54,198  | 247,549 | 148,640 | 318,650 | 509,816 | 818,890   | 878,623   | 1,424,130 |
| Fishery                         | 32,350  | 32,644  | 6,000   | 0       | 74,100  | 251,800   | 140,238   | 61,663    |
| Agriculture                     | 28,540  | 16,970  | 5,380   | 5,845   | 8,500   | 34,200    | 52,298    | 52,066    |
| Livestock                       | 0       | 2,000   | 7,800   | 8,500   | 19,994  | 13,000    | 26,900    | 51,601    |
| Sewing Workshop Management      | 0       | 0       | 423,506 | 415,495 | 912,632 | 823,419   | 1,736,319 | 1,071,828 |
| Group Capital (Poor Trust Fund) | 0       | 0       | 0       | 2,050   | 216,877 | 1,194,372 | 1,966,540 | 1,800,036 |

|              |         |         |         |         |           |           |           |           |
|--------------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| <b>Total</b> | 115,088 | 299,163 | 591,326 | 750,540 | 1,741,919 | 3,135,681 | 4,800,918 | 4,461,324 |
|--------------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|

Source : LZS (2001 until 2009).

**Figure 1: Summary of Audit Sample Report MAIS, 2004 – 2006 (%)**



Source: MAIS (2007)

Audit results proved that the implementation of Asnaf Entrepreneurship Development programme still not good enough. . Thus it shows that the need for a special study to identify achievements, strategies and problems involved asnaf entrepreneurs. The findings are important in charting the transformation programme to improve asnaf business performance problems.

## LITERATURE REVIEW

### Asnaf Business As A Social Business

Social business aimed at solving social problems through business approach which includes creating and selling products and services (Katz & Page 2010). There are two types of social business as presented by Muhammad Yunus (2010), namely:

- (i). **Social Business Type I.** It refers to the investors who contribute funds to the company and all proceeds benefit the company used for expanding and extending social business. No dividend is given to capitalists.
- (ii). **Social Business Type II.** It refers a business entity owned by poor people, either directly or indirectly.

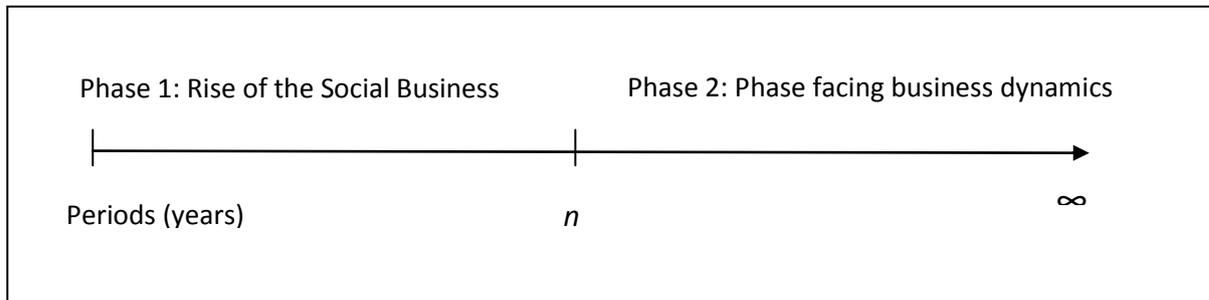
Thus poor and fakir asnaf business who receive zakat contribution in the form of business capital assistance are within the scope of the second type of social business (type II).

One thing that should be prioritized in social business is self-survival (self-sustain). Consequently, the ability to generate revenue on their own initiative are the distinguishing features of social business from non-profit entities. Apart from that, a social business is also required to go through the challenges faced by a genuine business, including from the point

of taxation. Thus social business must first create a profit. Accordingly, the expected asnaf business growth and development should go hand in hand with aging business.

Based on operational experience of Grameen-Danone (Muhammad Yunus, 2010) the development of social business can be divided into two basic stages as illustrated in [Figure 2](#).

**Figure 2: Development Phase A Social Business**



In the first phase, social issues are too urgent until social business does not have much choice other than to resolve social issues arising immediately. This phase is referred to as social business awakening phase. At this phase, urgent social issues and business actions must be tailored to the efforts to relieve the critical social problems at the time. For example, to generate income to finance the expenses of the kitchen and schooling for poor asnaf families affected. Therefore business conducted is more of a self-sufficiency and the targeted goal is to generate income to meet the most basic needs of themselves. Then, current business goals focused on the individual struggle for survival.

In the second phase (ie after the point of n) increasingly urgent social issues abated. Thus the more important issue is to maintain the growth of social firms that do not become extinct and destroy the potential contribution of social business in fulfilling its social role in the future. The second phase involves the process of organization learning and strategic approach in order to maintain the continuity of the organization in a dynamic business environment. This phase is known as dynamic turbulence and rejuvenate phase.

### **Small Firm Growth and Challenges**

All organizations are going through a series of levels of growth and development, referred to as 'organizational life cycle' (Jones 2001). Four stages in the 'organizational life cycle' are birth, growth, decline and death. However, each organization will go through different life cycle experience and not necessarily have to go through each level, respectively. Growth phase refers to the second stage in the organizational life cycle in which organizations build value-creation skills and abilities that enable organization obtain additional resources. Additional resources refers to the increase in sales, market share and generates more resources.

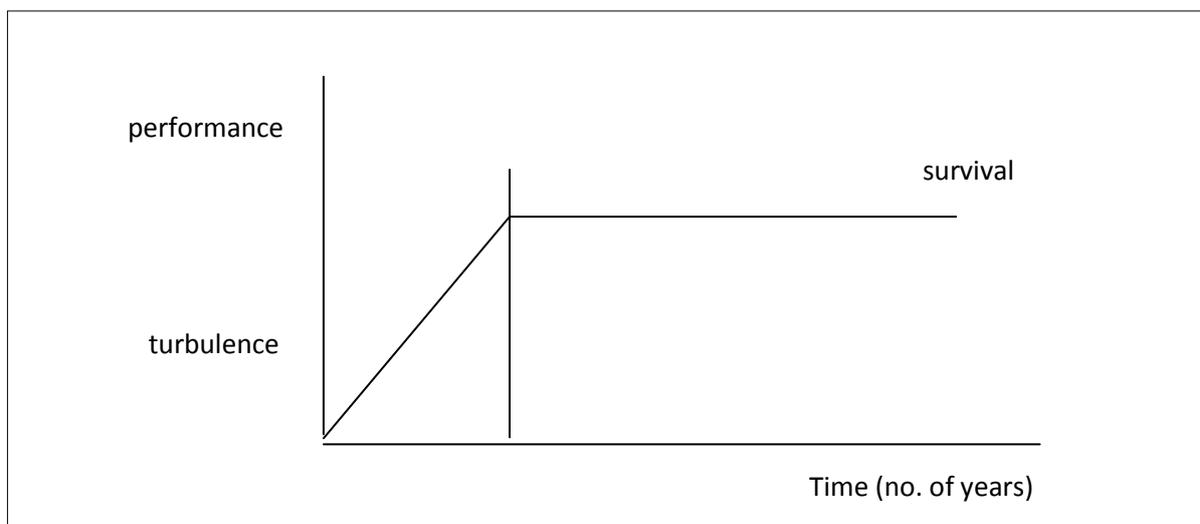
Next, Greiner Growth Model can be used as a basis for analyzing the variations in the level of growth in the life cycle of growth. According to Greiner model, organization goes through five series of growth levels and each level would end with the crisis due to the problems facing the firm. Based on [Figure 3](#), five levels of growth consist of growth through creative, growth through direction, growth through delegation, growth through coordination and growth through collaboration.

Based on **Figure 3** on the next level of growth through creativity, entrepreneurs striving to build the skills and ability to create and introduce new products (services) to new market niches. At this stage entrepreneurs are fully involved in developing and adapting existing or new procedures, and involve a lot of new learning process. After certain period of time an organization has started to operate in a more stable and this is where some insistence that need to change. Due to the entrepreneurs who set up the business also plays a role manages the firm, then at this stage begun to recognize that management is something very different from entrepreneurship. Management involves utilization of internal resources effectively to achieve organizational goals. While entrepreneurship is more related to rethink or building an organization. Entrepreneurial skills do not necessarily occur simultaneously with the efficiency of management. At this stage occurs a dichotomy between the objectives or views as its founder (entrepreneur) and as a manager. But here there is a crisis called by Grenier as the leadership crisis.

At the level of growth through direction, exist strong management team and are able to perform efficient resource management. At this stage of the procedure and the formal structure was outlined clearly in the firm's operations. However, when reached certain level, autonomy crisis occurs when creative individual in the organization start to feel depressed and confined in an innovative and creative activities due to a lack of autonomy. At the level of growth through delegation, the firm began to take a more flexible approach to resolve the autonomy crisis that hit in previous growth levels. Organization began to delegate authority to a unit or subordinate function to facilitate the creation of organizational value. This will encourage innovative behavior among all organizational members. However, to some extent, that freedom will leads to a situation out of control when an employee / lower managers began to stray from the right path of organization interests. Thus it creates a crisis of control to align the behavior of all members / unit towards the achievement of organizational goals. Solution to the crisis in the previous level has led to the level of growth through coordination. At this level, top management (founder) takes the role of motivating and coordinating the actions of all members of the organization toward the achievement of organizational objectives. It also involves a trade-off between centralized and decentralized control. This later spawned red tape crisis due to increased regulations and procedures to be followed. The next level of growth is growth through collaboration. At this stage, growth occurs through teamwork and an emphasis on social control and self-discipline. Organizations become more organic with extensive use of mutual adjustment and reduction in the use of standardization.

Suraiya et al. (2012) studies model can also be aligned to Grenier model for this discussion. Study model concluded that in order to maintain their viability, the entrepreneur business will go through certain phases of development alongside the passage of time (**Figure 4**).

**FIGURE 4: Entrepreneur Continuity Phase**



Source: Suraiya et al. (2012)

Suraya et al. (2012) study showed that successful entrepreneurs are those who can pass the most difficult situations in business life. After that moment the entrepreneur will find a turning point that is the beginning phase of success in their business life cycle. Suraiya et al. (2012) model is a sub-model that will operate / place in each model frame growth phase specified by Grenier (1972). It refers to each phase in which Grenier stated at the end of each stage of growth there will be a crisis for the firm and need a solution before stepping into the next phase of growth. The ability to solve problems in each stage will enable businesses to achieve turning point that led to the survival of the ability to move the next phase of growth. Suraiya et al. (2012) study also concluded that the effort to reach a turning point was challenging phase because at this point exist many problems (challenges) that must be dealt with efficiently and effectively and take time. It exists in every phase of growth.

Next, an explanation for the rise of the ability to reach a turning point can be attributed to the basic theory of firm growth Penrose (1959). According to the Theory of Firm Growth an entity's ability to grow the business is influenced by two factors: the adjustment cost and a productive opportunity set (Lockett et al. 2011). Adjustment cost component involves time and effort to integrate new management pattern and expansion of the firm. However, the adjustment cost is only possible after a firm can detect and exploit opportunities for growth opportunities. Thus the ability to detect more opportunities involve subjective judgments that firm managers assess productive opportunity set. Productive opportunity set refers to the ability of firms to grow through the ability of managers to combine resources to produce a productive service. Different managers will produce different services although other sources are still the same. According to Penrose's, depending on entrepreneurial capabilities as requirements for the firm to grow, is not enough as it should be coordinated with management capabilities to operate growth (Lockett et al., 2011; Connell,2009). If the management capacity has not been developed then it will be an obstacle to firm growth (Connell,2009).

In the context of the growth of small firms, Gill et al. (2010) research have shown the importance of the ability of the owner (entrepreneur) in driving the growth of small firms. Their study revealed that the lack of skills, no management skills and family-business conflict of the owners as a factor inhibiting the growth of small firms in Canada. Redmont and Walker (2008) study also explained that small business owners have the technical skills in the areas of their business but lack of experience in terms of management skills. Accordingly Redmont and Walker (2008) explains that a small business owner who is committed to the program management skills are better able to expand and grow the business. Therefore, the phenomenon is still in line with Firm Growth Theory, which stresses the ability of the manager (who is also the owner of the firm) as a critical factor in determining the performance and growth of the organization.

### **Small Business Problems**

It is typical for small firms facing financial problems (Greagory et al., 2005). Small firms tend to face difficult problems of obtaining financial assistance from financial institutions or agencies. Therefore, the manager (owner) small firms need to be more creative in finding alternative solutions to the financial problems faced. According to Sharma (1979) lack of capital caused a small firm dragged into chain of problems such as the size and position of the firm that are not attractive, low labor quality, small market coverage, low machinery and raw material quality and low-quality production. Apart from the lack of funds in the early stages can stunt growth and create a chronic financial crisis to the firm. Consequently small firm problem usually centered on the lack of funds and it produced a variety of other problems that affect the effectiveness of a firm's operations. Small firms are also often practiced simple business strategy, inexpensive and does not require huge capital. This can be understood from the Howorth and Wilson (1999) study, who says many small firms face problems receiving late payment. According to Sharma (1979) acceptance of late payments by clients stems from weaknesses of firm marketing strategy . In the event of poor marketing, the firm is desperate to boost sales by giving long credit facilities to their customers as part of its marketing strategy.

### **RESEARCH METHODS**

The study involved face to face interview with four respondents. The subjects were selected based on non-probabilistic techniques purposive sampling type. Interview question guide was developed to ensure consistency in the collection of information. Background of respondents to the survey are shown in [Table 2](#). Real name of respondents interviewed is kept secret for this analysis. Interviews were conducted in the entrepreneurs business premises involved at the agreed date. Interviews took between an hour to two hours. An interview was done with effect from 1 April 2012 to 30 April 2012.

### **ANALYSIS**

Almost all the respondents are already involved in the business earlier, that before engaging in asnaf entrepreneurship programme. For example En. Daniel started his soya business in 2003 and participation in the LZS programme happen next few years. For Pn. Sutinah, she start going into business selling cakes until being offered to participate in the LZS programme. Pn. Rubiah also been involved in the business of selling dodol for weddings and festive season since 2003 on its own and began to engage in LZS programme in 2008. Similarly, En. Rashid involved in business a year before receiving LZS business capital assistance. Therefore this study only focuses on the performance analysis and business strategy after the respondents involved with asnaf entrepreneurship programme. The findings of the interview information was summarized and reported in the table below.

**TABLE 2: Background of Respondents**

| No. | Respondent | Business background   |
|-----|------------|---|
| 1   | En. Daniel | <b>Business of selling soya drink:</b><br>1. Year of starting a business: 2003<br>2. Registration form: Enterprise<br>3. Number of recent staff - 2 person (En. Daniel and wife)<br>4. start-up capital - RM 500 (in 2003).<br>5. Assistance/LZS contributions: 1 lot of shop house in Hulu Selangor (without payment of rent) & 2 units of refrigerators   |
| 2   | Pn.Sutinah | <b>Laundry business:</b><br>1. Year of starting a business: 2007<br>2. Registration form: sole proprietorship<br>3. Current staff numbers - 2 person (family members)<br>4. Start-up capital - RM 100 (in 2007) & laundry machines worth RM 50,000<br>5. Assistance / LZS contribution: The cost of purchasing equipment and laundry machinery amounting to RM 50,000 & granting exemptions to rent premises in Shah Alam by LZS, in the early period of business operations (in 2007). |
| 3   | Pn. Rubiah | <b>coconut milk and dodol processing business:</b><br>1. Year of starting a business: 2003<br>2. Registration form: sole proprietorship<br>3. Numbers of Current staff: 3 person (family members)<br>4. Start-up capital: RM 10,000 & Coconut milk extractor machine worth RM 9,000.<br>5. Assistance/LZS contribution: The cost of purchasing coconut milk extractor machine worth RM 9,000 (in 2008).   |
| 4   | En. Rashid | <b>Making billboards business:</b><br>1. Year of starting a business: 2009<br>2. Registration form: Enterprise<br>3. Current staff numbers 3 person<br>4. Start-up capital RM 3,000 & cutter machine worth RM 5,000<br>5. Assistance /LZS contribution: The cost of purchasing cutter machines worth RM5,000 (in 2010).   |

Source: sample (2012)

a) **Business Achievement**

**TABLE 3: Comparative Income Before and After Joining Asnaf Entrepreneurship Programme**

| No. | Respondent | Average income during the | Current average business income |
|-----|------------|---------------------------|---------------------------------|
|-----|------------|---------------------------|---------------------------------|

|   |            | first year of business (RM per month) | (RM per month)                                |
|---|------------|---------------------------------------|---|
| 1 | En. Daniel | 1,000                                 | 2,000   |
| 2 | Pn.Sutinah | 5,000                                 | 10,000-12,000                                 |
| 3 | Pn. Rubiah | 1,000                                 | 6,000-7,000 normal time, 8,000 festive season |
| 4 | En. Rashid | 10,000                                | 13,000  |

Source: sample (2012)

Based on **Table 3**, the respondents experienced an increase in sales compared to the period when starting a business. Although some of the small business performance shows a very small increase, but these small business activities had reached its social objective of providing regular and continuous income for poor asnaf groups involved.

#### b) Business Strategy

**TABLE 4: The Applied Business Strategy by Asnaf Entrepreneur Programme Participants**

| No. | Respondent | Business Strategy  |
|-----|------------|--|
| 1   | En. Daniel | <ol style="list-style-type: none"> <li>1. Cost leadership.</li> <li>2. Selling directly on the premises.</li> <li>3. Selling at the farmers' market (pasar tani) every Wednesday.</li> </ol>   |
| 2   | Pn.Sutinah | <ol style="list-style-type: none"> <li>1. Market expansion through government tenders.</li> <li>2. Grant a discount for groups of potential customers / target</li> <li>3. Advertising / promotion as handouts flyers, face book and twitter.</li> <li>4. Marketing by word of mouth among customers.</li> </ol> |
| 3   | Pn. Rubiah | <ol style="list-style-type: none"> <li>1. Getting regular buyers in grocery stores, supermarkets, restaurants and event booking.</li> <li>2. Joining Agriculture Expo organized by agriculture department.</li> <li>3. Competitive price and marketing word of mouth among customers.</li> </ol>                 |
| 4   | En. Rashid | <ol style="list-style-type: none"> <li>1. Formation networks (networking) / social capital</li> <li>2. Offering competitive price or lower than competitors.</li> </ol>  |

Source: sample (2012)

Based on **Table 4**, the respondents have adopted certain business strategies to increase sales revenue which covers the cost leadership, spread the good name (word of mouth), distribution of flyers, expo participation, obtain government tenders through LZS assistance and business networking.

#### c) Problems faced

**TABLE 5: Business Problems / Challenges Faced by Asnaf Entrepreneur**

| No. | Respondent | Problems/Challenges   |
|-----|------------|---|
| 1   | En. Daniel | <ol style="list-style-type: none"> <li>1. Inadequate working capital.</li> <li>2. Equipment (machines) are not sufficient.</li> <li>3. No technology to develop soybean market to a wider market because soybean does not last long.</li> <li>4. Demands that do not reach the targeted volume due to non-strategic location and small domestic market</li> </ol> |
| 2   | Pn.Sutinah | <ol style="list-style-type: none"> <li>5. The intense competition among the other operators.</li> <li>6. Difficulties in obtaining permanent staff.</li> <li>7. Increasing operating costs include the cost of detergent and machine maintenance.</li> <li>8. Premises located less attractive due to remote access.</li> </ol>                                   |
| 3   | Pn. Rubiah | <ol style="list-style-type: none"> <li>4. Lack of raw materials (coconut fruit) and coconut fruit price increases.</li> <li>5. Access stores less attractive because it is located in the residential village.</li> <li>6. Lack of capital.</li> </ol>  |
| 4   | En. Rashid | <ol style="list-style-type: none"> <li>3. Receipt of late payments from customers</li> <li>4. Lack of skilled workers, specialized and technical.</li> </ol>  |

Source: sample (2012)

Based on **Table 5** can be seen some of the challenges faced by asnaf businesses involved covering working capital shortages, lack of equipment and technology, non-strategic location, the lack of raw materials and rising material costs and labor shortages.

## DISCUSSION

### Performance

The contribution of social business within the scope of this study is limited as providing an avenue for self-sufficiency income of the asnaf and their families. However, the overall performance of the asnaf entrepreneur business were found to be at the end of phase 1 or early second phase in the development of a social business, as shown in **Figure 2**. One thing that is noticeable is that all of them had gone beyond the initial phase in the process of awakening and began to face the challenges of business and business dynamics to grow to the next step. The respondent is currently in the growth phase of ‘growth through creativity’ as presented by Grenier Growth Model (see **Figure 3**) and start to face crisis that demands a solution if the small business want to continue to grow and sustain. Crisis at this levels depends critically on the ability of entrepreneurs (owners) to find the right solution in order to move towards growth and involves changes in management patterns.

For example, in the case of Mr. Daniel income during start-up of business in 2003 was RM 1,000, while the latest income is RM 2,000. Based on physical observations on the premises, clearly shows how he is facing a crisis between the role of an entrepreneur and role as a manager in its business operations. At the stage of producing soya drinks, he must produce the soya drinks alone, assisted by his wife. At the same time he has to think of fund-raising methods, the shortage of machines, and marketing strategy that are all burdened on his shoulders. This resulted in daily business operations are not managed efficiently and effectively.

Similarly, in the case of Pn. Rubiah where he managed to increase monthly sales revenue of RM 1,000 to RM 6,000 until RM 7,000 a month after engaging in the asnaf entrepreneurship programme. Now, she has started facing shortage of raw materials even though the demand

for coconut milk is more encouraging. Thus the limited supply of raw materials (coconut fruit) restricted the increase in optimal sales that can be achieved.

Pn. Sutinah that once had to contend with RM 5000 per month won the latest sales income between RM 10,000 to RM 20,000 a month. However, she began to feel the overall competition from other laundry shops. Among them is the difficulty in obtaining permanent workers and increased operating costs. Her performance was much influenced by the dependence on specific niche market and this long-term dependence is able to lead to long-term growth crisis. This is because if her business failed to create a competitive advantage which is backed by firm insiders own advantage then this will expose the business to deterioration especially in the competitive environment of the laundry industry.

En. Rashid business also performed well, where he managed to increase business income of RM 10,000 to RM 13,000 per month after joining the Asnaf Entrepreneurship programme. Now he is in the process of seeking funding to expand the business in addition to finding approaches to improve the customer credit management that may affect the business in the long run. Beyond that, he had difficulty getting specific skilled workers to meet the operational needs of the business involved in areas that require highly specialized technical skills.

These challenges faced by respondents indicate that business is in a crisis of leadership in the role of asnaf involved to solve the challenges confronting determinant of a firm's ability to move forward into the next stage of growth. Ability as a competent business managers are indispensable, other than entrepreneurial ability. This is because the business is undertaken requires a form of a more organized and capability in solving the problems facing the business strategically. This requirement is clearly in line with Penrose's Firm Growth Theory specifying different managers will produce different effects and services although other organizations resources are the same. Thus new forms of management capabilities required to support the more efficient growth process of the firms. For example, in the case of Pn. Rubiah, she should take a strategic approach to reduce symbiotic dependence (ie between firms and suppliers or customers) that causes the problem of coconut fruit supply uncertainty. Similarly, Pn. Sutinah which relies heavily on government tenders obtained in collaboration with Mais and LZS. Similarly, in the case of En. Daniel, he should immediately identify sources of capital assistance or necessary equipment assistance in its soybean drinks operations immediately. All this requires the ability of asnaf to manage the business efficiently and effectively.

Ability as a manager will determine the firm's ability to reach the turning point as a condition to sustainability consistent with 'survival of the fittest' analogy (see Figure 4). It can be shown when En. Rashid showed more pro-active ability to overcome financial challenges when he began doing paperwork and planning to apply for MARA financing for business expansion. This is because En. Rashid has relatively the advantages in terms of better educational background where he is a former student of a technical institute while assisted by other siblings who also have a qualification in the same field with him. While the other respondents have yet to show a special effort to solve the problems faced by other than continue with the current strategy adopted and can easily be challenged at any time by their competitors. For example, most respondents stated business strategy is 'cost leadership' or 'give a lower price than competitors', and 'word of mouth' marketing. However, in the long run 'cost leadership strategy' difficult to implement because an average operating cost has grown in tandem with the rise in the overall market. Besides word of mouth approach also

did not last long because there is no guarantee the customer is always satisfied with the quality of the product (service) in the future.

### **Applied Business Strategy**

Most of the respondents practice simple business strategy, cheap and limited effect in acquiring firm customers (sales). For example, almost all the respondents said they use a competitive pricing strategy. Similarly, confidence and reliance on word of mouth marketing, and the participation of business exhibition or reliance on government tenders. However En. Rashid demonstrate creativity when building networks as one of his business strategy. He formed a creative network where competitors at the same time has been a source of opportunities for him. According to En. Rashid, billboard maker firm located at the back of his shop is a competitor. But at the same time unique partnership exists between them whenever one of them is not able to meet the requirements or customer order, then they will give the opportunity to the opponent.

Simple option strategy is not expected to last long because it will be overtaken by other competitors. For example, low price strategy is not possible when operating costs increase or competitors have competitive advantages in terms of more competitive costs in the markets. However, the use of simple methods may have to do with financial constraints owned by the asnaf entrepreneur involved. This is in line with Sharma (1979) and Howorth and Wilson (1999) looking at how financial shortages drag the firm to adopt a simple marketing strategy and harmful in the long run. For example, loose credit policies in order to generate more sales.

### **Problems In Business**

Asnaf entrepreneurs business face a number of problems centered on acting capacity limitations due to either lack of capital or lack of knowledge about opportunities and alternative channels among asnaf entrepreneur involved. For example, En. Daniel facing small problem of working capital. This caused him to not be able to buy the equipment needed for the production process of soybean drinks products. At the time this study was conducted, appliances such as a steamer has been borrowed by him from the FAMA.

However at the time the interview was conducted, En. Daniel informed that the machine is worth RM 8,000 borrowed from the FAMA was returned back to the agency. In the case of Pn. Sutinah, she encountered problems include difficulty in obtaining permanent employees to manage and handling work in a laundry shop. This may be because of the low salary offer (ie RM 500) that resulted when workers change jobs frequently whenever they get better job. Competition is also on the rise, increasing the cost of materials and position of the laundry shop a little far from the main entry road as located in a fenced MAIS business complex around it. Similarly, in the case of Pn. Rubiah in which she states that the lack of financial capital limit the ability of businesses to meet the demand of coconut milk or dodol. This is because the capacity of the existing extractor machine limited contribute to difficulty diversify of cocnut-based products such as nata de coco production.

In the case of En. Rashid, he did he have difficulties in collecting service charges from customers especially from government customer who do not use the medium of cash in the transaction., He also faced problems getting skilled labor. For these industries, a skilled workforce is a vital asset that helps in managing the design and it affects the quality of design produced billboards. Therefore he should pay competitive salaries and attractive

remuneration in order to attract and retain highly skilled workers. At this point he employs two workers with a pay rate of RM 1,800 per month per person.

The ability to overcome the problem (crisis) is essential for creating a turning point to move to the next stage of growth as shown in **Figures 3 and 4**.

## **CONCLUSION**

Small business undertaken by asnaf is one kind of social business. Performance shown by the respondents in the study are still limited as a business that provides livelihood support to themselves and family (self-sufficiency). It still is in the scope of social business in the first phase of type II which social objectives related to developing the economic potential of self and family. However, respondents indicated their business was in a stage of crisis and requires a more strategic business management. At this point business strategy used is characteristically low levels due to factors including lack of funds or capital. This lack of funds may lead to a limitation in order to expand the business potential in the future. This problem is closely related to each other. Besides, the problem of dependence on other agencies or parties can also affect the firm competitiveness as market participants which made them unable to compete with other firms in the industry.

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## **MALAYSIAN FRANCHISEE SATISFACTION OF GOAL ATTAINMENT: A DISCOVERY OF HIERARCHY OF ENTREPRENEUR GOALS**

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### **ABSTRACT**

Although franchising continues to be exploited in the business sector, research and studies of franchising were scarcely mentioned in the organizational literature. Obviously, franchising as a body of knowledge has been studied mostly from the franchisor's perspective than on franchisees. Within franchisee literature, studies on people's motivation to become a franchisee have received some attention and provided little understanding, but no study has ever measured to what extent franchisees are satisfied with their personal goals in the business. Therefore, this study investigates to what extent franchisees have satisfied with the attainment of their personal goals in the business. To investigate the hypotheses, a positivist approach is chosen as the philosophical foundation of this study, and all methodological aspects related with this approach are employed in this study. A total of 204 franchisee entrepreneurs in Malaysia were surveyed and answered self-administered questionnaires. In general, statistical analysis suggests franchisees were satisfied with their goals attainments. However, further analysis shows that franchisees were mostly satisfied with Intrinsic Rewards goals, followed by Perceived Autonomy goals and Family Concern goals. Surprisingly, franchisees have less satisfaction with Economic Gain goals comparatively with other goals. Moreover, based on the conceptual analysis and empirical evidence, Hierarchy of Economic Goals and Hierarchy of Family Goals are discovered. Besides, this study does suggest that franchisees sustainability in the business may be affected by attainment of their personal goals. Finally, some limitations of the study are reviewed and some suggestions for future research are presented.

## **INTRODUCTION**

In the modern business world, franchising is considered to be an economically important form of entrepreneurship (Shane et al. 2006). It is perceived as entrepreneurial activity in that it creates new jobs and impacts the economic development (Falbe et al. 1999; Barthelemy 2009). Initially, franchising is formed when two entrepreneurs, namely franchisor and franchisee work synergistically to achieve overall business development (Rahatullah and Raeside 2008). In order for new franchisors to grow rapidly, the relatively greater use of franchising will enhance their survival (Shane 1996). On the other hand, for small businesses, franchising is also one of the options to minimize the risks of small business management (Abdullah et al. 2008; Hou et al. 2009).

Generally, franchising is often perceived as an effective method for a company to expand and grow their businesses (Chiou et al. 2004; Combs et al. 2011a; Cunill and Forteza 2010; Petersen and Welch 2000) or potentially a more cost effective method of business expansion (Sanghavi 2004). Moreover, franchising is preferred because it is an efficient way to collect the three fundamental resources a growth-oriented company needs; namely financial capital, market knowledge and human capital (Heung et al. 2008). From the service organization perspective, franchising has emerged as a powerful new way of facilitating the growth of service organizations (Altinay 2007) and considered one of the rapidly growing industrial sectors in Western economies (Rahatullah and Raeside 2008).

In the retail sector, franchising is also the world's fastest growing form of retailing (Dant 2008; Doherty 2007; Park and Sternquist 2008). In the international business perspective, franchising has been employing and rising globally (Alon and Banai 2000; Baena 2009) and is deemed as one of the fastest growing business sectors in international business (Duckett 2008; Maritz and Nieman 2008). Moreover, the current trends of globalisation, economic liberalization and advances in communication have been promoting a rapid growth in business format franchising (Aliouche and Schlenrich 2011; Teegen 2000). In contrast with other modes of international expansion, franchising is often perceived as more distinctive with higher visibility in foreign markets (Hoffman and Preble 2001) and therefore it is not surprising that franchising has been recognised as a preferred method of doing business throughout the global economy (Aliouche and Schlenrich 2011).

Even though franchising has been acknowledged as important to current economies, the franchising research and studies were scarcely mentioned in the organizational literature (Bradach 1997; Combs et al. 2011a). Further, franchising as a body of knowledge has been studied mostly from the franchisor's perspective (Combs et al. 2011a; Meek et al. 2011). Moreover, as claimed by Cheng et al. (2007), much of the franchising literature is based on the U.S. experience. Within franchisee's perspective, the motivation of people to become a franchisee entrepreneur has provided little understanding (Meek et al. 2011). Six articles (Knight 1984; Knight 1986; Peterson and Dant 1990; Ramirez-Hurtado and Quattrociocchi 2009; Tuunanen and Hyrsky 2001; Withane 1991) studied the perceived advantages of franchising in attracting franchisees and four articles (Bennet et al. 2010; Guilloux et al. 2004; Kaufmann 1999; Stanworth and Kaufmann 1996) studied the decision of prospective franchisees before buying the business. Otherwise, franchisee satisfaction has received rare

attention. This is true as there has been a notable absence of research investigating the reasons contributing to franchise relationship success (Merrilees and Frazer 2006).

Again, even though the franchisee is perceived important, empirical research from the franchisee's perspective is glaringly deficient in the literature (Combs et al. 2011a; Grunhagen and Mittelstaedt 2005; Hing 1995, Phan et al. 1996). On franchisee studies themselves, most studies have been done from a Western perspective (Chiou et al. 2004) and few academic research has been undertaken to investigate key dimensions relating to franchising, particularly in East Asia (Choo et al. 2007). Even studies on people's goals to become a franchisee have received some attention (Knight 1984; Knight 1986; Peterson and Dant 1990; Tuunanen and Hyrsky 2001; Withane 1991), and no study has ever measured to what extent franchisees are satisfied with their goals in the business.

In brief, from discussion before, there is a need to study franchising from franchisee's perspective and from non-Western perspective. Further, it is essential to investigate whether franchisee entrepreneur share similar goals compared with other types of entrepreneur. Moreover, to what extent franchisees are satisfied with their personal goals attainment in the business. Therefore, this paper is intended to study franchising from franchisee's perspective and from Asian perspective. Secondly, the paper would answer the research question, are the franchisees satisfied with their goal attainment?

## **LITERATURE REVIEW**

To answer the research question, franchisee goals and motivation has to be discovered first. Therefore, a review on entrepreneur motivation within entrepreneurship literature and franchisee motivation in franchising research was conducted. Based on the review, it is suggested that franchisees share similar goals and motivations with entrepreneur. Next are the details.

Conceptually, there are four goals why people engage in business. The first is a desire to be independence or achieve independence. This goal is considered the most important goal (Hatten 2009; Hodgetts and Kuratko 2002; Schaper and Volery 2007; Stokes and Wilson 2010), and the most frequently cited motivation why people start a business (Stokes and Wilson 2010; Vinturella 1999). This goal is regarded as more important than money as an entrepreneur can plan and run the business in the way they want (Barrow 1998). The second goal is associated with financial and monetary matters. Even Barrow (1998) and Moore et al. (2010) stated that the main motivation of an entrepreneur is the opportunity to make more money, several scholars mention that motivation is a secondary entrepreneur goal (Hodgetts and Kuratko 2002; Schaper and Volery 2007; Urlacher 1999).

The third goal is related with self-satisfaction. Some entrepreneurs believed that satisfaction they experience from running their own businesses is very important and may be even important than money, maybe even more than independence (Moore et al. 2010). The fourth goal is linked with family matters. As stated by Schaper and Volery (2007) and emphasized

by Hatten (2009), family matters are also important. Being an entrepreneur, the family will get some benefits of employment opportunities (Hodgetts and Kuratko 2002; Kaplan 2003; Schaper and Volery 2007) and monetary rewards (Kaplan 2003; Schaper and Volery 2007). Besides all four entrepreneur goals mentioned before, the other goals are considered secondary. These include making a difference (Scarborough and Zimmerer 2003), contribution to society (Hodgetts and Kuratko 2002, Moore et al. 2010; Scarborough and Zimmerer 2003), tax advantages (Barrow 1998), accountable to only yourself (Coulter 2001) and a desire to exploit an opportunity (Stokes and Wilson 2010).

Empirically, there are several dominant motivations or goals that are associated with entrepreneurs. In a study by Shane et al. (1991), they grouped 14 motivations into four factors, recognition, independence, learning and 'role'. Then, using exploratory factor analysis, Kuratko et al. (1997) classified entrepreneur's goals under four categories, namely extrinsic rewards, autonomy, intrinsic rewards and family security. Next, findings of 3,000 entrepreneurs by Lambing and Kuehl (2000) revealed five important goals why people engaged in self-employment which were to use personal skills and abilities, to gain control over one's life, to build something for the family, liking the challenge, and to live how and where one chooses. Moreover, they emphasized that need for achievement and a desire for independence are more important than money.

In addition, Robichaud et al. (2001) also clustered entrepreneur's goals under four categories, similar to Kuratko et al. (1997). Subsequently, Wang et al. (2006) categorized 17 entrepreneur's goals into four factors namely personal development, financial goals, 'push motivations' and flexible lifestyle. Benzing and Chu (2009) also grouped 10 entrepreneur's goals into 'Family factor', external validation and self-betterment. Consequently, Benzing et al. (2009) arranged 11 entrepreneur's goals into four factors namely security factor, income factor, independence factor and intrinsic factor. Lastly, Jayawarna et al. (2011) studied 211 entrepreneurs in England and grouped 21 goals into seven factors namely achievement, flexibility, materialism, power, status, community and role model.

Based on the previous discussion and the essence of each factor, there are seven groups associated with entrepreneur's goals, namely extrinsic rewards/financial, motivations/self-betterment/materialism (Benzing and Chu 2009; Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Robichaud et al. 2001; Wang et al. 2006), autonomy / independence / flexibility (Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001; Shane et al. 1991; Wang et al. 2006), intrinsic rewards / personal development / recognition / external, validation / achievement (Benzing and Chu 2009; Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001; Shane et al. 1991; Wang et al. 2006), family factor / security (Benzing and Chu 2009; Benzing et al. 2009; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001), 'role' (Jayawarna et al. 2011; Shane et al. 1991), 'push motivations' (Wang et al. 2006), and community (Jayawarna et al. 2011).

Based on a conceptual and empirical discussion of entrepreneur goals it shows that four dominant goals exist among entrepreneurs. There are independence/autonomy, financial and monetary matters, intrinsic rewards/self-satisfaction and family matter. Therefore, these four goals are chosen to be the goals that franchisees strive to achieve in their business endeavour. For the purpose of this study, these four goals are renamed as Economic Gain, Perceived Autonomy, Intrinsic Rewards and Family Concern. This study acknowledges other factors such as 'push motivations', 'role' and others factors as entrepreneur's goals but empirical studies found to support these factors are not dominant.

## **METHODOLOGY**

Since positivism is associated with the research objective, research question and nature of this study, positivism is chosen as the research philosophy of this study. Hence, several methodological aspects discussed previously and associated with a positivistic approach are utilised in this study. Next, a *cross-sectional study* was proposed for this research to examine two or more variables at a single point in time. To obtain significant information, a *survey* was conducted among Malaysian franchisees. *Self-completion questionnaires* were utilised as the instrument to collect the data among the targeted respondents. Since there was no Malaysian franchisees' database available, the ideal sampling frame cannot be drawn. Given that the sampling design must be consistent with the objectives of the study (Davis 2005), non-probability sampling may offer a better alternative.

Therefore, this study employs a *non-probability sampling technique* since the individual members of the population do not have an equal chance or predetermined chance of being selected as a member of the sample (Jackson 2008; Sekaran 2003). This is also supported by the fact that "the inability to specify a sampling frame may dictate the use of one or a number of non-probability sampling techniques" (Oakshott 2001: 16). Next, this is the only feasible alternative since the total population is not available for study (Cooper and Schindler 2008) and is the only way to obtain the necessary data (Sekaran 2003). Within *non-probability sampling techniques*, *convenience sampling* was utilised as it is the only and might be the best alternative available of the sampling method.

Three criteria are proposed in selecting the targeted respondents. The first criteria are the respondents of this study should be the owner or one of the owners of the franchisee companies as done by all franchisee studies. The second criteria are that he or she should be actively involved in managing the franchisee company, not a sleeping partner or inactive shareholder (Dant and Gundlach 1999; Morrison 1996; Strutton et al. 1995). So, the potential respondent might be the Chief Executive Officer, General Manager, or manager of the company but have the ownership of the franchisee companies. These criteria are also aligned with entrepreneurship studies where normally the respondents are the business owners who were actively in the management of operations rather than passive investors (Aidis and Praag 2007; Steward et al. 2003). The third criteria are the franchisees should be in the business with a minimum period of one year (Morrison 1996; Strutton et al. 1995).

In constructing the questionnaire, guidelines by Ghauri and Gronhaug (2002), Ghauri et al. (1995), Jackson (2008), Kumar (2005) Oakshott (2001), Reaves (1992) and Saunders et al. (2009) are employed by the researcher. Therefore, for every variable in this study, a construct is developed. Every variable is given operational definitions and the researchers ensure that prior operationalizations/measurements employed capture the same constructs (Ghauri et al. 1995). To undertake reliability issues in this study, several criteria are used in developing the

construct. The first criteria are using the questions that have a high coefficient alpha/Cronbach's alpha. For those questions that have been used in previous studies, the minimum Cronbach's alpha is 0.70 or close to 0.70 (Vogt 2007). Since not all questions developed before have Cronbach's alpha, the minimum mean for those questions (in likert scale) to be adapted is 3.5/5.0 or equivalent. Third, for questions developed before that used 'yes' and 'no' questions, the minimum 'yes' answer is 70 percent.

In order to reduce threats to construct validity, the researcher uses clearly stated definitions and carefully builds the hypotheses on solid, well-validated constructs (Graziano and Raulin 1993). Lastly, In measuring entrepreneurs' motivation and goals attainment, since satisfaction is the key in the franchisee-franchisor relationship (Abdullah et al. 2008; Chiou et al. 2004; Morrison 1996; Roh and Yoon 2009; Yaqub et al. 2010), franchisees' goals attainment are measured by the satisfaction of goal attainments, similar to Chaganti and Greene (2002), but rated on a seven-point scale. Further, seven-point rated scales have been used by Kuratko et al. (1997) and Taormina and Lao (2007). Moreover, studies by Kuratko et al. (1997) and Taormina and Lao (2007) are more relevant to this study as they investigated the achievement of motivation of the entrepreneur.

## **DATA COLLECTION**

### **Informal Pilot Test**

Before conducting the formal pilot test, an informal pilot test was conducted among a number of colleagues, the PhD adviser or actual respondents to refine a measuring instrument (Cooper and Schindler 2008; Ghauri et al. 1995; Lee and Lings 2008). Two people were chosen for the informal pilot test. The first person to answer and comment on the questionnaire is a lecturer at the University of Essex who conducted his PhD thesis through a survey method, was familiar with and had experience with questionnaire design. The first person recommended several changes to the questionnaire. Two sentences have been added to enhance the instructions given in questions associated with goal attainment. He also commented and suggested several changes, particularly on grammatical errors, and enhanced the English language that was used. The second person is a lecturer at Universiti Kebangsaan Malaysia (UKM) and also conducted his PhD thesis using questionnaires and was very familiar with the survey method. He commented on the introduction letter, and added one more option for the highest educational qualification question, namely 'diploma'. Therefore a 'diploma' option was added as one of the measurements after 'Higher School Certificate' and before 'first degree/professional qualification'.

### **Pilot Test**

A pilot study was done in Malaysia since respondents of a pilot test should be those that will be used in the full study (Zikmund et al. 2010; Groves et al. 2004). A pilot test was conducted between 5 May to 15 May 2008. Since no franchisee directory is established, and there was no need for a pilot study to be statistically selected (Cooper and Schindler 2008), the pilot study was conducted through convenience sampling. Overall, 10 franchisees in the district of Kajang, State of Selangor, Malaysia answered and gave their comments on the questionnaires given as suggested by Saunders et al. (1997). One variable in Economic Gain factor was deleted due to similarity with other variable.

## **Data Collection**

Data collection by Field Workers (FW) were conducted through self-completion questionnaire forms as it offer several advantages such as being cheaper and quicker to administer, an absence of interviewer effects, no interviewer variability and convenience for respondents (Bryman 2008). All FW had been given two months to accomplish their jobs. During the period, the researcher had always contacted and monitored the FW through mail, email, phone and meetings with them at their places. Throughout the period, one field worker had a dengue fever and was considered not capable to complete the job. In addition, 10 FW were 'Missing in Action' as efforts by the researcher to contact them by phone and email had failed and they never returned back any complete questionnaires. The researcher has taken contingency action to replace the field workers, but reserved field workers showed no interest in participating as most of them had already had a part time job. Overall 700 questionnaires were printed and distributed among FW. A total of 220 questionnaires were not returned as the 11 FW were either sick or 'Missing in Action'. Among the 480 questionnaires distributed among active field workers, 198 answered questionnaires were returned by 21 field workers (with an average of 9.43 questionnaires for each FW). Next, 282 questionnaires were returned blank. According to the field workers, this is due to the difficulty in detecting franchisee premises and getting the respondents to respond.. Furthermore, several FW were annoyed by getting up early and stopped doing data collection when numerous franchisees were reluctant to cooperate. Since the response rate is higher than 30 percent ( $198/480=41.25$  percent), therefore, the value and validity of this method and results is considered satisfactory (Gillham 2000).

Many surveys employ multiple modes of data collection to reduce costs, maximise the response rate and to increase the momentum of data collection (Groves et al. 2004). Since the first wave of data collection through field workers has not reached the minimum 200 respondents as targeted, a contingency plan was conducted. Given that the bigger the response rate is better for any study (Vogt 2007), data collection by post as a second option was utilised to increase the overall response rate (Davis 2005). Moreover, several franchisee studies also employed multiple modes of data collection such as Marnburg et al. (2004), Cho (2004), Brodie et al. (2002), Knott (2001) and Withane (1991). In total, 566 letters were sent out and the actual response rate is 6.36 percent. Combined with questionnaires from field workers, 234 questionnaires were collected during the process. Eventually, 30 questionnaires were dropped because of the franchisee involved in the business less than one year, the systems have been identified as not being a franchise system and the respondents were not the owner manager of the business. After data editing process, only 204 questionnaires are usable and fulfil the study requirement. Out of 204 questionnaires, only 35 mailing questionnaires are usable with an actual 6.18 percent response rate. For data collection through field workers, only 169 questionnaires are usable with a 35.21 percent response rate.

## **Personal Background**

AS APPEARS IN TABLE 1, THE MAJORITY OF RESPONDENTS ARE MALE (54.41 PERCENT), BUT THE NUMBER OF FEMALE FRANCHISEES IS NOT LOW WITH 93 FRANCHISEES (45.59 PERCENT). IN TERMS OF AGE, 165 RESPONDENTS (80.88 PERCENT) ARE LESS THAN 46 YEARS OLD AND ABOUT 10 RESPONDENTS ARE OLDER THAN 55 YEARS. THE MAJORITY OF RESPONDENTS ARE MARRIED (82.84 PERCENT) AND 91.67 PERCENT OF THE RESPONDENTS ARE ETHNIC MALAY AND CHINESE. THIS DATA IMPLIES THAT FRANCHISING IS BECOMING MORE POPULAR AMONG ETHNIC MALAY AS TARGETED IN GOVERNMENT POLICY AND PROGRAMME SINCE 1992. NEXT, 135 FRANCHISEES (66.18 PERCENT) ATTAINED TERTIARY EDUCATION. THIS MEANS FRANCHISING IS A POPULAR BUSINESS AMONG UNIVERSITY AND COLLEGE GRADUATES. SUBSEQUENTLY, MAJORITY OF THE RESPONDENTS (137 FRANCHISEES; 67.16 PERCENT) HAD LITTLE OR NO EXPERIENCE IN SIMILAR BUSINESS BEFORE BECOMING A FRANCHISEE. THIS MEANS THAT MAJORITY OF FRANCHISORS DO NOT PREFER POTENTIAL FRANCHISEES WITH SIMILAR EXPERIENCE IN SIMILAR BUSINESS.

**TABLE 1 :PERSONAL BACKGROUNDS**

| <b>CHARACTERISTICS</b> | <b>CATEGORY</b> | <b>NUMBER<br/>(PERCENTAGE)</b> |
|------------------------|-----------------|--------------------------------|
| GENDER                 | MALE            | 111 (54.41)                    |
|                        | FEMALE          | 93 (45.59)                     |
| AGE (IN YEARS)         | 19-25           | 12 (5.58)                      |
|                        | 26-35           | 70 (34.31)                     |
|                        | 36-45           | 83 (40.69)                     |
|                        | 46-55           | 29 (14.22)                     |
|                        | 56-65           | 7 (3.43)                       |
|                        | 66 AND ABOVE    | 3 (1.47)                       |
| MARITAL STATUS         | SINGLE          | 32 (15.69)                     |
|                        | MARRIED         | 169 (82.84)                    |

|                                   |   |                        |
|-----------------------------------|---|------------------------|
|                                   | DIVORCED                                | 2 (.098)               |
|                                   | WIDOWED                                 | 1 (0.49)               |
|                                   | OTHERS                                  | -                      |
| ETHNICITY                         | MALAY                                   | 100 (49.02)            |
|                                   | CHINESE                                 | 87 (42.65)             |
|                                   | INDIAN                                  | 7 (3.43)               |
|                                   | OTHER <i>BUMIPUTERA</i>                 | 7 (3.43)               |
|                                   | OTHERS                                  | 3 (1.47)               |
| HIGHEST EDUCATIONAL QUALIFICATION | NO FORMAL EDUCATION                     | -                      |
|                                   | PRIMARY SCHOOL                          | -                      |
|                                   | LOW EDUCATION                           | CERTIFICATE 7 (3.43)   |
|                                   | MALAYSIAN EDUCATION                     | CERTIFICATE 52 (25.49) |
|                                   | HIGH SCHOOL CERTIFICATE                 | 10 (4.90)              |
|                                   | DIPLOMA                                 | 51 (25.00)             |
|                                   | FIRST DEGREE/PROFESSIONAL QUALIFICATION | 75 (36.76)             |
|                                   | POST GRADUATE DEGREE (MASTER, PHD)      | 9 (4.41)               |
| EXPERIENCE IN SIMILAR BUSINESS    | NO EXPERIENCE                           | 92 (45.10)             |
|                                   | LITTLE EXPERIENCE                       | 45 (22.06)             |
|                                   | MODERATE EXPERIENCE                     | 51 (25.00)             |
|                                   | EXTENSIVE EXPERIENCE                    | 16 (7.84)              |

## BUSINESS BACKGROUND

THE NUMBER OF FRANCHISEES ATTACHED TO A HOME-GROWN FRANCHISE SYSTEM AND INTERNATIONAL FRANCHISE SYSTEM ALMOST BALANCE (TABLE 2). A TOTAL OF 121 FRANCHISEES (59.31 PERCENT) REGISTERED WITH HOME-GROWN FRANCHISOR AND 83 FRANCHISEES ARE ATTACHED TO INTERNATIONAL SYSTEMS. OUT OF 83 FRANCHISEES, 78.31 PERCENT OF THEM

(65 FRANCHISEES) OPERATE AS A FRANCHISEE TO A MASTER FRANCHISEE OF AN INTERNATIONAL FRANCHISOR AND 21.69 PERCENT (18 FRANCHISEES) OPERATE AS A FRANCHISEE TO AN INTERNATIONAL FRANCHISOR.

**TABLE 2: STATUS OF FRANCHISE BUSINESS**

| <b>FRANCHISE STATUS</b>  | <b>FREQUENCY (IN PERCENTAGE)</b> |
|--|----------------------------------|
| FRANCHISEE TO A HOME-GROWN FRANCHISOR                            | 121 (59.31)                      |
| FRANCHISEE TO A MASTER FRANCHISEE OF AN INTERNATIONAL FRANCHISOR | 65 (31.86)                       |
| FRANCHISEE TO AN INTERNATIONAL FRANCHISOR                        | 18 (8.82)                        |
| <b>TOTAL</b>   | <b>204 (100)</b>                 |

IN TERMS OF INDUSTRY CLASSIFICATION, ONE FOURTH OF THE RESPONDENTS (51 FRANCHISEES) ARE INVOLVED IN THE FOOD BUSINESS, 35 FRANCHISEES (17.16 PERCENT) ARE INVOLVED IN LEARNING CENTRES AND NURSERIES, 33 FRANCHISEES ARE IN SERVICES AND MAINTENANCE BUSINESS (16.18 PERCENT) AND 29 FRANCHISEES (14.22 PERCENT) ENGAGED IN HEALTH AND BEAUTY CENTRES. CONCISELY, 148 FRANCHISEES (72.55 PERCENT) ENGAGED WITH FOUR TYPES OF INDUSTRY AND 27.8 PERCENT WERE INVOLVED IN OTHER FOUR TYPES OF INDUSTRY AS SHOWN IN TABLE 3.

**TABLE 3: TYPES OF INDUSTRY**

| <b>TYPES OF INDUSTRY</b>         | <b>FREQUENCY (IN PERCENTAGE)</b> | <b>RANKING</b> |
|----------------------------------|----------------------------------|----------------|
| FOOD                             | 51 (25.0)                        | 1              |
| SERVICES AND MAINTENANCE         | 33 (16.18)                       | 3              |
| CONVENIENCE SHOP AND SUPERMARKET | 3 (1.47)                         | 8              |
| LEARNING CENTRE AND              | 35 (17.16)                       | 2              |

|                                      |                  |   |
|--------------------------------------|------------------|---|
| NURSERY                              |                  |   |
| HEALTH AND BEAUTY CARE               | 29 (14.22)       | 4 |
| IT, TELECOMMUNICATION AND ELECTRICAL | 6 (2.94)         | 7 |
| CLOTHING AND ACCESSORIES             | 21 (10.29)       | 6 |
| OTHER BUSINESSES                     | 26 (12.75)       | 5 |
| <b>TOTAL</b>                         | <b>204 (100)</b> |   |

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ON THE SIZE OF THE CURRENT BUSINESS, AS DEMONSTRATED IN TABLE 4, 111 FRANCHISEES HAVE FIVE OR LESS EMPLOYEES AND 55 FRANCHISEES HAVE 6-10 EMPLOYEES. ONLY 38 FRANCHISEES HAVE MORE THAN 10 EMPLOYEES IN THE BUSINESS. PRACTICALLY, THE MAJORITY OF THE FRANCHISEE BUSINESSES (81.37 PERCENT) ARE SMALL BUSINESSES SINCE MOST OF THEM EMPLOYED LESS THAN 10 FULL-TIME STAFF.

**TABLE 4: AVERAGE NUMBER OF EMPLOYEES**

| NUMBER OF EMPLOYEES            | FREQUENCY<br>(IN PERCENTAGE) | (IN |
|--------------------------------|------------------------------|-----|
| JUST YOU WORKING BY YOURSELF   | 2 (0.98)                     |     |
| SELF PLUS 1-2 FULL-TIME STAFF  | 34 (16.67)                   |     |
| SELF PLUS 3-5 FULL-TIME STAFF  | 75 (36.77)                   |     |
| SELF PLUS 6-10 FULL-TIME STAFF | 55 (26.96)                   |     |
| SELF PLUS > 10 FULL-TIME STAFF | 38 (18.63)                   |     |
| <b>TOTAL</b>                   | <b>204 (100)</b>             |     |

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## FINDINGS AND DISCUSSION

**TABLE 5: RANKING OF FRANCHISEE ENTREPRENEUR GOALS**

| RANK | QUESTIONS                  | VARIABLES | MEAN | S.D  |
|------|----------------------------|-----------|------|------|
| 1.   | FOR MY OWN PERSONAL GROWTH | INRWRD7   | 5.86 | .923 |

|     |   |         |      |       |
|-----|---|---------|------|-------|
| 2.  | GAINED A FEELING OF PRIDE AS A RESULT OF MY WORK                              | INRWRD5 | 5.84 | 1.057 |
| 3.  | PURSUED A CHALLENGE IN MY LIFE  | INRWRD2 | 5.77 | .972  |
| 4.  | ACHIEVED FLEXIBILITY TO ACCOMMODATE BOTH BUSINESS AND FAMILY RESPONSIBILITIES | FAMILY1 | 5.70 | 1.076 |
| 5.  | PROVED I CAN DO IT  | INRWRD3 | 5.69 | 1.123 |
| 6.  | SATISFIED MY DESIRE FOR HANDS-ON EXPERIENCE                                   | INRWRD4 | 5.68 | 1.023 |
| 7.  | SCHEDULE MY OWN WORK ACTIVITIES   | AUTO2   | 5.62 | 1.065 |
| 8.  | BECOME EXCITED AT RUNNING MY OWN BUSINESS                                     | INRWRD1 | 5.61 | 1.241 |
| 9.  | GAINED CONTROL MY OWN TIME  | AUTO1   | 5.59 | 1.086 |
| 10. | GAINED MORE RESPECT BY THE OTHERS   | INRWRD6 | 5.56 | 1.018 |
| 11. | ACHIEVED GREATER CONTROL OVER MY LIFE   | AUTO8   | 5.54 | 1.071 |
| 12. | GAINED THE FREEDOM OF BEING MY OWN BOSS                                       | AUTO5   | 5.53 | 1.164 |
| 13. | GAINED CONTROL MY OWN EMPLOYMENT DESTINY                                      | AUTO7   | 5.51 | 1.129 |
| 14. | MADE MY OWN DECISIONS   | AUTO3   | 5.47 | 1.288 |
| 15. | MAINTAINED MY PERSONAL FREEDOM  | AUTO6   | 5.46 | 1.221 |
| 16. | HELPED OTHER FAMILY MEMBERS   | FAMILY2 | 5.43 | 1.267 |
| 17. | ACHIEVED A PROFIT FROM MY ENDEAVOURS  | EGAIN3  | 5.42 | 1.243 |
| 18. | GAINED PERSONAL CONTROL OF THE BUSINESS                                       | AUTO4   | 5.39 | 1.299 |
| 19. | SECURED A FUTURE FOR FAMILY MEMBERS   | FAMILY5 | 5.33 | 1.381 |
| 20. | INCREASED MY FAMILY STATUS  | FAMILY4 | 5.32 | 1.299 |
| 21. | IMPROVED MY FINANCIAL STATUS  | EGAIN4  | 5.31 | 1.263 |
| 22. | INCREASED MY PERSONAL INCOME  | EGAIN2  | 5.29 | 1.280 |

|     |   |         |       |       |
|-----|---|---------|-------|-------|
| 23. | ACQUIRED MORE MONEY FOR FAMILY3<br>FAMILY | 5.27    | 1.344 |       |
| 24. | RECEIVED A SALARY BASED ON<br>MERIT       | 5.22    | 1.304 |       |
| 25. | ACHIEVED LONG-TERM FINANCIAL<br>SECURITY  | 5.11    | 1.340 |       |
| 26. | BUILT A BUSINESS TO PASS ON               | FAMILY6 | 5.09  | 1.459 |
| 27. | ACQUIRE PERSONAL WEALTH                   | EGAIN5  | 4.93  | 1.298 |

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NOTE: S.D = STANDARD DEVIATION

THE RESEARCH QUESTION IS, ARE FRANCHISEES SATISFIED WITH THEIR GOALS ATTAINMENT? GENERALLY, STATISTICAL RESULTS SHOW IN TABLE 5 SUGGESTS THAT ENTREPRENEURS ARE SATISFIED WITH THEIR GOAL ATTAINMENT THROUGH ENGAGING IN THE FRANCHISING BUSINESS. THIS IS TRUE AS ALL GOALS RECEIVED A SCORE OF MEAN MORE THAN 5.00, EXCEPT FOR ONE GOAL, NAMELY 'ACQUIRE PERSONAL WEALTH' (EGAIN 5) WHICH RECEIVED A SCORE OF 4.93. SUBSEQUENTLY ARE THE DETAILS.

### **ECONOMIC GAIN**

GENERALLY, FRANCHISEES ARE SLIGHTLY PRONE TO AGREE WITH THE SATISFACTION THEY GAIN FROM ECONOMIC GAIN FACTORS (OVERALL MEAN=5.21). AS SHOWN IN TABLE 6, FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH ACHIEVEMENT OF PROFIT (MEAN=5.42), IMPROVEMENT OF FINANCIAL STATUS (MEAN=5.31) AND INCREASE IN PERSONAL INCOME (MEAN=5.29). 'RECEIVED A SALARY BASED ON MERIT' (MEAN=5.22) AND 'LONG-TERM FINANCIAL SECURITY' (MEAN=5.11) STILL RECEIVED SCORES MORE THAN 5.00. LASTLY, ACQUIRING PERSONAL WEALTH RECEIVED A SCORE OF 4.93, THE LOWEST SCORE IN ECONOMIC GAIN VARIABLES.

THESE FINDINGS HAVE SHOWED SOME SIMILARITIES WITH OTHER FINDINGS IN PREVIOUS ENTREPRENEURSHIP AND FRANCHISING STUDIES. FIRSTLY, ACHIEVING A PROFIT IS THE MAIN ATTRACTION OF FRANCHISEES AS FOUND BY GUILLOUX ET AL. (2004). THEN, THIS EVIDENCE ALSO SHOWS SUPPORT FROM PREVIOUS LITERATURE ON THE REASONS WHY PEOPLE START THEIR OWN BUSINESS AND HOW THEY BENEFIT FROM SMALL BUSINESS OWNERSHIP (HATTEN 2009; SCARBOROUGH AND ZIMMERER 2003; SCHAPER AND VOLERY 2007). THEREFORE, SINCE FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH THE ACHIEVEMENT OF PROFIT, THIS INDICATES THAT PROFIT IS THE KEY OBJECTIVE TO BE ATTAINED BY ENTREPRENEURS BEFORE OTHER FINANCIAL OR MONETARY OBJECTIVES CAN BE CONSIDERED.

### **TABLE 6: ECONOMIC GAIN VARIABLE BY MEAN**

| <b>RANK</b> | <b>QUESTIONS</b>                      | <b>VARIABLES</b> | <b>MEAN</b> | <b>S.D</b> |
|-------------|---------------------------------------|------------------|-------------|------------|
| 1.          | ACHIEVED A PROFIT FROM MY ENDEAVOURS  | EGAIN3           | 5.42        | 1.243      |
| 2.          | IMPROVED MY FINANCIAL STATUS          | EGAIN4           | 5.31        | 1.263      |
| 3.          | INCREASED MY PERSONAL INCOME          | EGAIN2           | 5.29        | 1.280      |
| 4.          | RECEIVED A SALARY BASED ON MERIT      | EGAIN1           | 5.22        | 1.304      |
| 5.          | ACHIEVED LONG-TERM FINANCIAL SECURITY | EGAIN6           | 5.11        | 1.340      |
| 6.          | ACQUIRED PERSONAL WEALTH              | EGAIN5           | 4.93        | 1.298      |

NOTE: S.D. = STANDARD DEVIATION

SECONDLY, FRANCHISEES PERCEIVED IMPROVING FINANCIAL STATUS AS IMPORTANT AS EXISTS IN ENTREPRENEURSHIP STUDIES (BASU 1998; TAORMINA AND LAO 2007). THIS MAY MEAN THAT FINANCIAL CONDITION CANNOT BE IMPROVED IF THE BUSINESS DOES NOT MAKE ANY PROFIT. THIRDLY, INCREASING PERSONAL INCOME IS AN IMPORTANT MOTIVE AND FRANCHISEES ARE SATISFIED WITH THIS GOAL AS IS ALSO DISCOVERED IN SEVERAL ENTREPRENEURSHIP STUDIES (BASU 1998; CHAGANTI AND GREENE 2002; HINZ AND JUNGBAUER-GANS 1999; KAUFMANN 1999; KURATKO ET AL. 1997). THIS FINDING ALSO SUPPORTED FINDINGS IN FRANCHISING STUDIES WHICH REVEALED THAT MANY PEOPLE BECOME A FRANCHISEE WITH GREAT EXPECTATIONS IN AREAS SUCH AS INCOME (MORRISON 1996; KNIGHT 1984; KNIGHT 1986; WITHANE 1991)

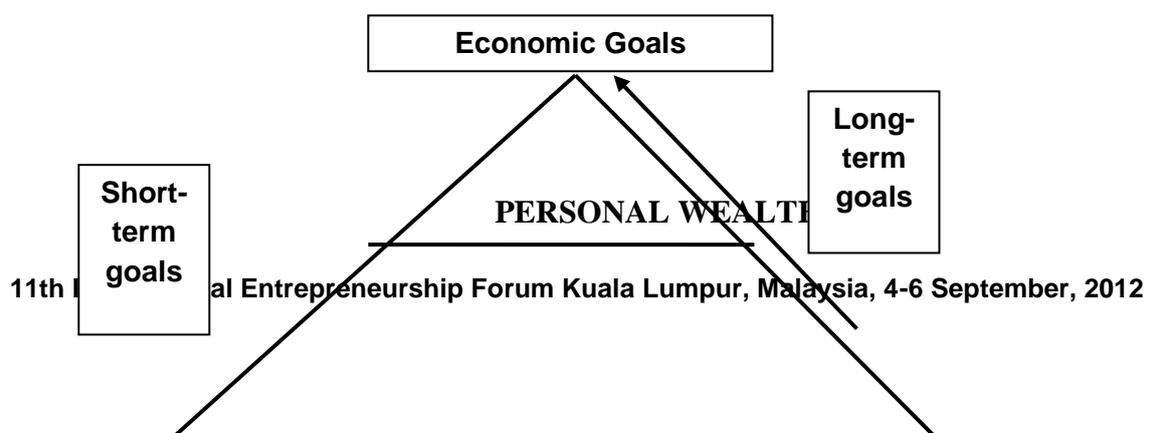
NEXT, FRANCHISEES DO APPRECIATE THAT FRANCHISING ENABLES THEM TO RECEIVE THEIR OWN SALARY BASED ON MERIT AS INDICATED IN ENTREPRENEURSHIP STUDIES (CHOO AND WONG 2006; GAUZENTE 2003; INMA 2005; KOLVEREID AND ISAKSEN 2006). MOREOVER, AS FAR AS THE RESEARCHER IS CONCERNED, THIS IS THE FIRST FRANCHISING STUDY TO ACKNOWLEDGE THIS VARIABLE AS ONE OF THE FRANCHISEE MOTIVATIONS. THEN, EVEN THOUGH FRANCHISING ARRANGEMENT IS ON A CONTRACTUAL BASIS AND THE FRANCHISEE CAN BE TERMINATED IF THEY DID SOMETHING WRONG OR ACTED ILLEGALLY ACCORDING TO THE CONTRACT, FRANCHISEES PERCEIVE LONG-TERM FINANCIAL SECURITY AS ONE OF THEIR GOALS WHEN ENTERING FRANCHISING, AS WAS DISCOVERED IN ENTREPRENEURSHIP STUDIES (ALSTETE 2002; CHOO AND WONG 2006; MORRIS ET AL. 2006). AGAIN, THIS MAY BE THE FIRST FRANCHISEE STUDY TO ACKNOWLEDGE THIS GOAL AS ONE OF THE FRANCHISEES' MOTIVATION. FURTHER, THIS SHOWS THAT FRANCHISEES EXPECT LONG-TERM FINANCIAL

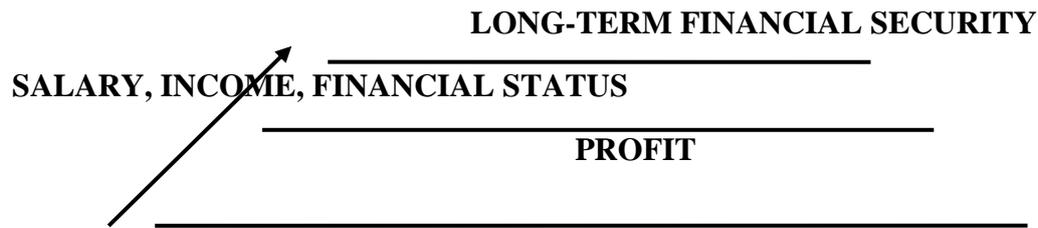
BENEFITS EVEN THOUGH THE PROMISE OF LONG-TERM FINANCIAL INDEPENDENCE IS NOT QUOTED AS FREQUENTLY AS OTHER GOALS (STOKES AND WILSON 2010). MOREOVER, FRANCHISEES DEEM TO HAVE LONG-LASTING RELATIONSHIPS WITH THE FRANCHISOR WHEN BECOMING A FRANCHISEE SINCE LONG-TERM FINANCIAL SECURITY CANNOT BE ACHIEVED WITH A SHORT-TERM RELATIONSHIP.

LASTLY, FRANCHISEES ARE SATISFIED WITH THE 'ACQUIRE PERSONAL WEALTH' GOAL WHICH RECEIVED A SCORE OF 4.93. ALTHOUGH THE SCORE IS LESS THAN 5.00, FRANCHISEES ACKNOWLEDGE THIS GOAL AS ONE OF THEIR GOALS AS OBSERVED IN ENTREPRENEURSHIP STUDIES (AMIT ET AL. 2000; BASU 1998; KURATKO ET AL. 1997; OAKLEY 2003). THE LOW SCORE MAY ASSOCIATE WITH THE FACT THAT FRANCHISING IS POSITIONED BY THE GOVERNMENT OF MALAYSIA TO INCREASE PEOPLE'S PARTICIPATION IN ENTREPRENEURSHIP ACTIVITIES, NOT TO PRODUCE MILLIONAIRES (MALAYSIA FRANCHISE DIRECTORY 2008).

OVERALL, THE RESULTS INDICATE A HIERARCHY OF ECONOMIC GOALS (HEG). PROFIT IS THE BASIC GOAL OF BUSINESS HEALTH, AND ACHIEVEMENT OF PROFIT WILL LEAD TO THE ACHIEVEMENT OF A GOOD SALARY, MORE PERSONAL INCOME AND IMPROVEMENT OF FINANCIAL STATUS. SINCE PROFIT IS THE BASIC GOAL OF THIS HIERARCHY, THE OTHER THREE GOALS ARE CONSIDERED INTERMEDIATE GOALS OF THE HIERARCHY. FAILURE TO ATTAIN THIS BASIC GOAL WILL AFFECT THE INTERMEDIATE GOALS DIRECTLY AND TURN THE BUSINESS INTO A PROBLEMATIC SITUATION. NEXT, ACHIEVEMENT OF THESE SHORT-TERM GOALS (THE BASIC GOAL AND INTERMEDIATE GOALS) WILL LEAD TO THE ACHIEVEMENTS OF LONG-TERM ECONOMIC GOALS (ADVANCE GOALS), SUCH AS LONG-TERM FINANCIAL SECURITY AND PERSONAL WEALTH. FRANCHISEES' ULTIMATE GOAL IS TO ACHIEVE THE ADVANCE GOAL. THIS IS BECAUSE FAILURE OF THE BUSINESS TO ATTAIN BASIC GOALS MAY NOT FORCE THE FIRM INTO A PROBLEMATIC SITUATION FOR FRANCHISEES WHO HAVE BEEN ACHIEVING ADVANCE GOALS. IF ENTREPRENEURS ARE SUFFICIENTLY PREPARED, THEIR ADVANCE GOALS CAN BE UTILISED IN ASSISTING THE FIRM DURING PROBLEMATIC SITUATIONS. FOR EXAMPLE, THEIR PERSONAL ASSETS AND PROPERTY CAN BE USED TO HELP THEIR BUSINESSES. FIGURE 1 SIMPLIFIES THE HIERARCHY OF ECONOMIC GOALS.

**FIGURE 1: HIERARCHY OF ECONOMIC GOALS**





**PERCEIVED AUTONOMY**

GENERALLY, FRANCHISEES AGREE WITH THE SATISFACTION THEY GAIN FROM PERCEIVED AUTONOMY FACTORS (OVERALL MEAN=5.51). IN DETAILS (TABLE 7), FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH ‘SCHEDULING THEIR OWN WORK ACTIVITIES’ (MEAN=5.62), ‘CONTROL THEIR OWN TIME’ (MEAN=5.59), ‘CONTROL OVER THEIR OWN LIFE’ (MEAN=5.54), ‘FREEDOM OF BEING AS BOSS’ (MEAN=5.53) AND ‘CONTROL THEIR OWN EMPLOYMENT DESTINY’ (MEAN=5.51). NEXT, FRANCHISEES ARE ALSO SATISFIED WITH THEIR INDEPENDENCE OF ‘MADE THEIR OWN DECISIONS’ (MEAN=5.47), ‘MAINTAINED THEIR PERSONAL FREEDOM’ (MEAN=5.46) AND ‘GAINED PERSONAL CONTROL OF THE BUSINESS’ (MEAN=5.39).

THESE FINDINGS SHOW THAT FRANCHISEE ENTREPRENEURS ARE MOSTLY SATISFIED WITH THE SCHEDULING OF THEIR OWN WORK ACTIVITIES. PROBABLY, THIS GOAL RECEIVED THE HIGHEST SATISFACTION BECAUSE FRANCHISEES DO NOT HAVE RESTRICTIONS OF STANDARD WORKING TIME IN THE CORPORATE WORLD (KAPLAN 2003) WHEN THEY CHOOSE TO BECOME FRANCHISEES. MOREOVER, THIS GOAL IS ATTAINED AS FRANCHISEES HAVE THE FREEDOM TO DO THINGS THEIR OWN WAY (KURATKO AND HODGETTS 2002). IN ADDITION, THIS GOAL ALSO ASSOCIATES WITH THE FLEXIBILITY THAT FRANCHISEES SEEK IN THEIR LIVES WHEN BECOMING AS ENTREPRENEUR (KAPLAN 2003). NOT MANY EMPIRICAL STUDIES BEFORE INCLUDED THIS GOAL IN THEIR STUDIES OF ENTREPRENEUR MOTIVATION (KOLVEREID AND ISAKSEN 2006; STRUTTON ET AL. 1995). THEREFORE, THESE RESULTS EXTEND PREVIOUS RESEARCH IN THIS AREA.

**TABLE 7: PERCEIVED AUTONOMY VARIABLE BY MEAN**

| <b>RANK</b> | <b>QUESTIONS</b>                        | <b>VARIABLES</b> | <b>MEAN</b> | <b>S.D</b> |
|-------------|---|------------------|-------------|------------|
| 1.          | SCHEDULE MY OWN WORK ACTIVITIES         | AUTO2            | 5.62        | 1.065      |
| 2.          | CONTROL MY OWN TIME                     | AUTO1            | 5.59        | 1.086      |
| 3.          | ACHIEVED GREATER CONTROL OVER MY LIFE   | AUTO8            | 5.54        | 1.071      |
| 4.          | GAINED THE FREEDOM OF BEING MY OWN BOSS | AUTO5            | 5.53        | 1.164      |

|    |   |       |      |       |
|----|---|-------|------|-------|
| 5. | GAINED CONTROL OVER MY OWN EMPLOYMENT DESTINY | AUTO7 | 5.51 | 1.129 |
| 6. | MADE MY OWN DECISIONS                         | AUTO3 | 5.47 | 1.288 |
| 7. | MAINTAINED MY PERSONAL FREEDOM                | AUTO6 | 5.46 | 1.221 |
| 8. | GAINED PERSONAL CONTROL OF THE BUSINESS       | AUTO4 | 5.39 | 1.299 |

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NOTE: S.D. = STANDARD DEVIATION

NEXT, FRANCHISEES DO PERCEIVE AND SATISFIED WITH THE OPPORTUNITIES TO CONTROL THEIR OWN TIME AS DISCOVERED IN ENTREPRENEURSHIP LITERATURE (MITCHELL 2004; CHOO AND WONG 2006; TAORMINA AND LAO 2007). THIS MEANS THAT BESIDES THE WORK SCHEDULING, TIME MANAGEMENT IS PERCEIVED IMPORTANT AND PART OF AUTONOMY DESIRED BY ENTREPRENEUR, AND IS ALSO CLOSELY RELATED WITH THE FLEXIBILITY ENTREPRENEURS SEEK IN THEIR LIVES (KAPLAN 2003).

NEXT SATISFACTION WITH THESE TWO GOALS WOULD ENABLE FRANCHISEES TO HAVE GREATER CONTROL OVER THEIR LIFE. THAT MAY EXPLAIN WHY THIS FACTOR RECEIVED THE THIRD HIGHEST SATISFACTION BY FRANCHISEES. THE RESULTS INDICATE THAT FRANCHISEES APPRECIATE HAVING DIRECT CONTROL OVER THEIR WORKING LIFE (SCHAPER AND VOLERY 2007) OR HAVING MORE CONTROL OVER THEIR LIVES (HATTEN 2009). THIS RESULT CONFIRMS THE SIMILAR FACTOR THAT EXISTS IN ENTREPRENEURSHIP LITERATURE (CHAGANTI AND GREENE 2002; FELDMAN AND BOLINO 2000; MORRIS ET AL. 2006; MITCHELL 2004; ALSTETE 2002) AND SUPPORT AND STRENGTHEN THE ONLY FRANCHISING STUDY RELATED WITH THIS GOAL (MORRISON 1996).

‘FREEDOM OF BEING MY OWN BOSS’ IS THE MOST CITED GOAL WITHIN THE PERCEIVED AUTONOMY GOAL ON THE ISSUE OF WHY PEOPLE BECOME ENTREPRENEURS. THIS GOAL HAS BEEN STATED AS THE MOTIVATION TO BECOME AN ENTREPRENEUR (COULTER 2001), THE GOAL THAT DRIVES PEOPLE TO START THEIR OWN BUSINESS (SCHAPER AND VOLERY 2007; URLACHER 1999), THE ADVANTAGES OF OWNING A BUSINESS (BARROW 1998; MOORE ET AL. 2010; KURATKO AND HODGETTS 2002) AND THE PULL FACTORS IN BECOMING AN ENTREPRENEUR (KAPLAN 2003). EVEN THOUGH DIFFERENT SCHOLARS USED DIFFERENT TERMS, THIS STUDY INDICATES THAT ‘FREEDOM OF BEING MY OWN BOSS’ IS SUPPORTED AS ONE OF THE MOST IMPORTANT GOALS TARGETED BY FRANCHISEES. THIS SUPPORTS CURRENT EVIDENCE IN ENTREPRENEURSHIP LITERATURE (CHOO AND WONG 2006; KOLVEREID AND ISAKSEN 2006; KURATKO ET AL. 1997; LASHLEY AND ROWSON 2002; WILSON ET AL. 2004) AND FRANCHISING LITERATURE (MORRISON 1996). FURTHER, BEING YOUR OWN BOSS AS A FRANCHISEE IS NOT SIMILAR WITH BECOMING A BOSS IN THE CORPORATE WORLD. ‘BEING YOUR OWN BOSS’ ENABLES

FRANCHISEES TO MAKE THEIR OWN DECISIONS, TAKE RISKS AND OPERATE INDEPENDENTLY FROM BUREAUCRATIC PROCEDURES (MOORE ET AL. 2010), BUT AT THE SAME TIME THEY HAVE TO FOLLOW PROCEDURES/RULES THAT ARE DETERMINED BY THE FRANCHISE SYSTEM.

NEXT, THIS STUDY DEMONSTRATES 'GAINED CONTROL MY OWN EMPLOYMENT DESTINY' AS ONE OF THE GOALS ASSOCIATED WITH AUTONOMY/INDEPENDENCE (SCARBOROUGH AND ZIMMERER 2003). HENCE, THIS ENHANCES CURRENT EVIDENCE IN ENTREPRENEURSHIP LITERATURE (ALSTETE 2002; KOLVEREID AND ISAKSEN 2006; KURATKO ET AL. 1997). FURTHER, THIS STUDY SUGGESTS 'CONTROL OF MY OWN EMPLOYMENT DESTINY' AS ONE OF THE GOALS TARGETED BY FRANCHISEES SINCE NOT A SINGLE FRANCHISING STUDY MENTIONS THIS GOAL AS FRANCHISEES' GOALS. IN GENERAL, IT CAN BE ASSUMED THAT FRANCHISEES PERCEIVE THAT THEIR CAREER IS BETTER THAN WORKING WITH SOMEONE OR IN THE CORPORATE SECTOR IN ORDER TO CONTROL INDIVIDUAL EMPLOYMENT DESTINY.

BESIDES CONTROLLING GOALS ASSOCIATED WITHIN PERCEIVED AUTONOMY GOALS (CONTROLLING OF WORK SCHEDULE, CONTROLLING OF TIME, CONTROL OVER ONE'S OWN LIFE AND EMPLOYMENT DESTINY), FRANCHISEES PERCEIVE AND APPRECIATE OPPORTUNITIES TO MAKE THEIR OWN DECISIONS. IN GENERAL, THIS RESULT SUGGESTS THAT FRANCHISEES HAVE A DESIRE TO MAKE THEIR OWN DECISIONS (KAPLAN 2003; MOORE ET AL. 2010), APPRECIATE THEIR CAPACITY TO MAKE DECISIONS (SCHAPER AND VOLERY 2007), OR LIKE MAKING DECISION (URLACHER 1999). THIS ENHANCES EVIDENCE IN ENTREPRENEURSHIP LITERATURE (GAUZENTE 2003; KOLVEREID AND ISAKSEN 2006; TAORMINA AND LAO (2007) AND FRANCHISING LITERATURE (MORRISON 1996).

NEXT, FRANCHISEES REMAIN SATISFIED WITH THE PERSONAL FREEDOM THEY GAINED WHEN BECOMING FRANCHISEES. EVEN THOUGH FRANCHISEES DO NOT HAVE TOTAL FREEDOM IN MANAGING THEIR BUSINESS, THEY STILL REALIZE THE FREEDOM AND FLEXIBILITY IN MANAGING THE BUSINESS (MOORE ET AL. 2010) AND MIGHT PERCEIVE IT AS AN ATTRACTIVE ALTERNATIVE (KAPLAN 2003). THIS FINDING ENHANCES CONTEMPORARY LITERATURE IN ENTREPRENEURSHIP STUDIES (ALSTETE 2002; BUTTNER AND MOORE 1997; CHAGANTI AND GREENE 2002; HINZ AND JUNGBAUER-GANS 1999; KURATKO ET AL. 1997; MORRIS ET AL. 2006). SINCE NO FRANCHISING STUDIES MENTION THIS GOAL AS BEING IMPORTANT, FUTURE FRANCHISING STUDIES SHOULD INCLUDE THIS GOAL AS ONE OF THE CONSTRUCTS WITHIN AUTONOMY ASSOCIATED GOALS.

LASTLY, FRANCHISEES ARE SATISFIED WITH PERSONAL CONTROL OF THE BUSINESS AS ONE OF THE GOALS ASSOCIATED WITH PERCEIVED AUTONOMY GOALS. THIS EVIDENCE MAY ASSOCIATE WITH THE INCENTIVE OF BEING YOUR OWN BOSS (MOORE ET AL. 2010) AND THE FLEXIBILITY PEOPLE SEEK WHEN BECOMING AN ENTREPRENEUR. IN ADDITION, IT SUPPORTS CURRENT EVIDENCE IN ENTREPRENEURSHIP LITERATURE (KOLVEREID AND ISAKSEN 2006; SWIERCZEK AND HA 2003) AND FRANCHISING LITERATURE (MORRISON 1996). THIS GOAL MAY ACHIEVE THE LOWEST SATISFACTION SINCE FRANCHISEES DO NOT HOLD ULTIMATE CONTROL OF THEIR BUSINESS AS THEY HAVE TO FOLLOW MANY RULES AND PROCEDURES DETERMINED BY THE FRANCHISOR.

OVERALL, THE RESULTS INDICATE THAT FRANCHISEES PERCEIVE THE FLEXIBILITY IN WORK ACTIVITIES, TIME MANAGEMENT, LIFE CONTROL AND BEING THEIR OWN BOSS AS THE PRIMARY GOALS ASSOCIATED WITH PERCEIVED AUTONOMY GOALS. FURTHER, THE RESULTS HIGHLIGHT THAT FRANCHISEES DID UNDERSTAND THAT THEY DO NOT HAVE TOTAL FREEDOM IN CONTROL OF THEIR OWN EMPLOYMENT DESTINY, MAKING DECISIONS, ENJOYING PERSONAL FREEDOM AND ACQUIRING PERSONAL CONTROL OF THE BUSINESS AS FRANCHISORS HAVE MOST OF THE AUTHORITY IN DEALING WITH THESE GOALS.

### **INTRINSIC REWARDS**

GENERALLY, FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH INTRINSIC REWARDS GOALS (OVERALL MEAN=5.72). AS DISPLAYED IN TABLE 8, FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH THEIR OWN PERSONAL GROWTH (MEAN=5.86), GAINED A FEELING OF PRIDE AS A RESULT OF THEIR OWN WORK (MEAN=5.84), PURSUED A CHALLENGE IN THEIR LIFE (MEAN=5.77) AND PROVED THEY CAN DO IT (MEAN=5.69). NEXT, FRANCHISEES WERE ALSO SATISFIED WITH THE DESIRE FOR HANDS-ON EXPERIENCE (MEAN=5.68), EXCITED AT RUNNING THEIR OWN BUSINESS (MEAN=5.61) AND GAINED MORE RESPECT FROM THE OTHERS (MEAN=5.56).

**TABLE 8: INTRINSIC REWARDS VARIABLE BY MEAN**

| <b>RANK</b> | <b>QUESTIONS</b>                                 | <b>VARIABLES</b> | <b>MEAN</b> | <b>S.D</b> |
|-------------|--|------------------|-------------|------------|
| 1.          | FOR MY OWN PERSONAL GROWTH                       | INRWRD7          | 5.86        | .923       |
| 2.          | GAINED A FEELING OF PRIDE AS A RESULT OF MY WORK | INRWRD5          | 5.84        | 1.057      |
| 3.          | PURSUED A CHALLENGE IN MY LIFE                   | INRWRD2          | 5.77        | .972       |
| 4.          | PROVED I CAN DO IT                               | INRWRD3          | 5.69        | 1.123      |

|    |   |         |      |       |
|----|---|---------|------|-------|
| 5. | SATISFIED MY DESIRE FOR HANDS-<br>ON EXPERIENCE | INRWRD4 | 5.68 | 1.023 |
| 6. | BECOME EXCITED AT RUNNING MY<br>OWN BUSINESS    | INRWRD1 | 5.61 | 1.241 |
| 7. | GAINED MORE RESPECT BY THE<br>OTHERS            | INRWRD6 | 5.56 | 1.018 |

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NOTE: S.D. = STANDARD DEVIATION

THIS FINDING SHOWS THAT FRANCHISEE ENTREPRENEURS ARE MOSTLY SATISFIED WITH THEIR OWN PERSONAL GROWTH. MOST PROBABLY, THIS GOAL IS ACHIEVED AS FRANCHISEES AS ENTREPRENEUR STRIVE TO FULFIL PSYCHOLOGICAL SATISFACTION (HODGETTS AND KURATKO 2002) AND ATTEMPT TO REACH THEIR FULL POTENTIAL WHEN BECOMING A FRANCHISEE (SCARBOROUGH AND ZIMMERER 2003). THUS, IT IS CLEAR THAT PEOPLE BECOME ENTREPRENEURS TO OBTAIN THE BENEFITS OF SMALL BUSINESS OWNERSHIP (HODGETTS AND KURATKO 2002; SCARBOROUGH AND ZIMMERER 2003). FURTHER, THIS FINDING COMPLIMENTS PREVIOUS FINDINGS IN ENTREPRENEURSHIP STUDIES (ALSTETE 2002; KURATKO ET AL. 1997) AND ENHANCES THE EVIDENCE OF INTRINSIC REWARDS GOALS IN FRANCHISING STUDIES (JAMBULINGAM AND NEVIN 1999).

NEXT, FRANCHISEES ARE ALSO SATISFIED WITH THE FEELING OF PRIDE AS A RESULT OF THEIR OWN WORK. PRACTICALLY, FRANCHISEES' WORK AND PERFORMANCE ARE NOT TOTALLY DEPENDENT ON THEIR TOWN EFFORT SINCE FRANCHISOR ROLES AND RESPONSIBILITIES ARE ALSO IMPORTANT IN DETERMINING THE SUCCESS OF THE FRANCHISING BUSINESS. HOWEVER, THIS INDICATES THAT FRANCHISEES SATISFY A FEELING OF PRIDE AND APPRECIATE THIS AS ONE OF THE REWARDS OF BEING AN ENTREPRENEUR (COULTER 2001). NEVERTHELESS, THIS MAY ALSO MEAN THAT FRANCHISEES WANTED TO BE RECOGNISED FOR THEIR EFFORTS (SCARBOROUGH AND ZIMMERER 2003). BRIEFLY, THIS FINDING ENHANCES CURRENT EVIDENCE ON ENTREPRENEUR GOALS (GRUNHAGEN AND MITTELSTAEDT 2005) AND THIS STUDY IS CONSIDERED AS ONE OF THE FEW EMPIRICAL STUDIES TO ASSOCIATE THIS GOAL WITH A MOTIVE TO BECOME FRANCHISEE.

THEN, FRANCHISEES DO SATISFY THE GOAL TO PURSUE A CHALLENGE IN THEIR LIFE. INDIRECTLY, THIS RESULT DEMONSTRATES THAT ENTREPRENEUR LOVE AND LIKE THE CHALLENGES IN RUNNING THEIR OWN BUSINESSES (HATTEN 2009; MOORE ET AL. 2010) OR ARE AKIN TO TACKLE CHALLENGE (COULTER 2001). AS WELL, THIS RESULT SUPPORTS CURRENT EVIDENCE IN ENTREPRENEURSHIP LITERATURE (KURATKO ET AL. 1997; LAMBING AND KUEHL 2000; MORRIS ET AL. 2006; SUZUKI ET AL. 2002) AND SUPPORTS AND STRENGTHENS THE ONLY FRANCHISING STUDY ASSOCIATED WITH THIS GOAL (JAMBULINGAM AND NEVIN 1999).

NEXT, FRANCHISEES SATISFY THE PERSONAL GOAL THAT ENABLES THEM TO PROVE THEY CAN DO WHAT THEY WANT. THIS GOAL IS ASSOCIATED WITH FEELINGS OF ACHIEVEMENT (COULTER 2001) AND HOW PEOPLE REALIZE THEIR AMBITIONS (HATTEN 2009). IN GENERAL, PEOPLE MIGHT WANT TO PROVE THEY CAN SUCCEED WHEN BECOMING A FRANCHISEE ENTREPRENEUR; THEY CAN DO WHAT THEY INTEND TO DO OR THEY CAN DO SOMETHING OUTSIDE THE CORPORATE JOBS. THIS RESULT SUPPORTS CURRENT EVIDENCE (KURATKO ET. AL. 1997) AND ENRICHES FRANCHISEE GOALS ASSOCIATED WITH INTRINSIC REWARDS GOALS.

SUBSEQUENTLY, FRANCHISEES' DESIRE FOR HANDS-ON EXPERIENCE IS SUPPORTED. THIS GOAL IS LINKED WITH THE REWARDS OR THE OPPORTUNITIES THAT ARISE FROM BEING AN ENTREPRENEUR (COULTER 2001; HATTEN 2009). CLEARLY, PEOPLE INTENDED TO USE ONE'S SKILLS FULLY (HATTEN 2009) OR USE A VARIETY OF SKILLS AND TALENTS WHEN BECOMING AN ENTREPRENEUR (COULTER 2001). WORKING IN THE CORPORATE SECTOR WOULD ENABLE SOMEBODY TO UTILISE THEIR SKILLS BUT NOT ALWAYS UP TO THEIR MAXIMUM OR THE SKILLS EMPLOYED DO NOT VARY. THIS EVIDENCE STRENGTHENS CURRENT FRANCHISING LITERATURE (GRUNHAGEN AND MITTELSTAEDT 2005) AND CONTRIBUTES MORE EVIDENCE FOR INTRINSIC REWARDS GOALS.

NEXT, FRANCHISEES ARE SATISFIED WITH THE EXCITEMENT OF RUNNING THEIR OWN BUSINESS. THIS GOAL IS ASSOCIATED WITH THE ARGUMENT THAT SOME PEOPLE WANTED TO HAVE FUN WITH THEIR WORK WHEN BECOMING AN ENTREPRENEUR (HATTEN 2009). BESIDES, SOME ENTREPRENEURS BELIEVED THAT SATISFACTION THEY EXPERIENCE FROM RUNNING THEIR OWN BUSINESS IS VERY IMPORTANT AND SPEND MOST OF THEIR TIME DOING WHAT THEY LIKE TO DO BEST (MOORE ET AL. 2010). THEREFORE, THIS EVIDENCE HIGHLIGHTS THE IMPORTANCE OF EXCITEMENT IN RUNNING ONE'S OWN BUSINESS AS WAS DISCOVERED IN MANY ENTREPRENEURSHIP STUDIES (ALSTETE 2002; BUTTNER AND MOORE 1997; GRUNHAGEN AND MITTELSTAEDT 2005; KURATKO ET AL. 1997; LASHLEY AND ROWSON 2002; TREGEAR 2005) AND STRENGTHENS FRANCHISEE STUDIES ASSOCIATED WITH INTRINSIC REWARD GOALS (PETERSON AND DANT1990).

'GAINED MORE RESPECT BY THE OTHERS' RECEIVED THE LOWEST SATISFACTION. AS FAR AS THE RESEARCHER IS CONCERNED, THIS FACTOR IS NOT MENTIONED FREQUENTLY IN LITERATURE. THIS EVIDENCE DEMONSTRATES THAT SEVERAL ENTREPRENEURS WANTED TO BE RESPECTED BY OTHER PEOPLE AS EVIDENCED IN ENTREPRENEURSHIP LITERATURE (BUTTNER AND MOORE 1997; KURATKO ET AL. 1997). THE RESULT MAY REFLECT THAT THIS GOAL IS NOT DOMINANT WHEN PEOPLE CHOOSE TO BECOME A FRANCHISEE ENTREPRENEUR.

## **FAMILY CONCERN**

GENERALLY, FRANCHISEES SLIGHTLY AGREE WITH THE ATTAINMENT OF FAMILY CONCERN GOALS (OVERALL MEAN=5.36). IN DETAIL, FRANCHISEES HAVE THE HIGHEST SATISFACTION WITH THE FLEXIBILITY TO ACCOMMODATE BOTH BUSINESS AND FAMILY RESPONSIBILITIES (MEAN=5.70), HELPED OTHER FAMILY MEMBERS (MEAN=5.43), SECURED A FUTURE FOR FAMILY MEMBERS (MEAN=5.33), AND INCREASED THEIR FAMILY STATUS (MEAN=5.32). NEXT, FRANCHISEES WERE ALSO SATISFIED THAT THEY CAN ACQUIRE MORE MONEY FOR THEIR FAMILY (MEAN=5.27) AND BUILD A BUSINESS TO PASS ON (MEAN=5.09).

THESE FINDINGS SHOW THAT FRANCHISEE ENTREPRENEURS ARE MOSTLY SATISFIED WITH THE FLEXIBILITY TO ACCOMMODATE BOTH BUSINESS AND FAMILY RESPONSIBILITIES. MOST LIKELY, THIS GOAL RECEIVED THE HIGHEST SATISFACTION BECAUSE FRANCHISEES DO NOT HAVE RESTRICTIONS OF STANDARD WORKING TIME IN THE BUSINESS WORLD WHEN THEY CHOOSE TO BECOME FRANCHISEES (KAPLAN 2003). BESIDES, THIS EVIDENCE SUPPORTS THE IDEA THAT MANY INDIVIDUALS CHOOSE SELF-EMPLOYMENT AS A MEANS OF BALANCING WORK AND FAMILY DEMANDS (CARR 1996). THEREFORE, FRANCHISEES HAVE THE FLEXIBILITY TO DO WHAT IS IMPORTANT DUE TO THEIR OWN TIME AND CAN MANAGE THEIR BUSINESS AND FAMILY RESPONSIBILITIES EFFICIENTLY. BESIDES, THIS GOAL MIGHT ALSO ASSOCIATE WITH THE FLEXIBILITY THAT FRANCHISEES SEEK IN THEIR LIVES WHEN BECOMING AS ENTREPRENEUR (KAPLAN 2003). FURTHER, THIS FINDING ENHANCES CURRENT RESEARCH IN ENTREPRENEURSHIP STUDIES (ALSTETE 2002; MORRIS ET AL. 2006; WILSON ET AL. 2004) AND FRANCHISING STUDIES (TUUNANEN AND HYRSKY 2001). FUTURE STUDIES ON FAMILY GOALS SHOULD INCLUDE THIS GOAL AS ONE OF THE IMPORTANT GOALS.

NEXT, FRANCHISEES ARE SATISFIED WITH THE GOAL TO HELP OTHER FAMILY MEMBERS AS EXISTS IN ENTREPRENEURSHIP LITERATURE (LAFUENTE AND SALAS 1989) AND FRANCHISING RESEARCH (KAUFMANN AND STANWORTH 1995). IT MEANS PEOPLE ALSO WANTED TO ASSIST THEIR FAMILY MEMBERS WHEN BECOMING FRANCHISEE ENTREPRENEURS, ESPECIALLY WITH THE EMPLOYMENT OPPORTUNITIES ESTABLISHED IN THE NEW BUSINESS. BESIDES, FRANCHISEES ENTREPRENEURS CAN RECRUIT THEIR SIBLINGS OR RELATIVES TO BE PART OF THE WORKFORCE OR APPOINT THEIR FAMILY MEMBERS AS ONE OF THE MAIN PERSONS IN THE BUSINESS.

**TABLE 9: FAMILY CONCERN VARIABLES BY MEAN**

| <b>RANK</b> | <b>QUESTIONS</b>                                  | <b>VARIABLES</b> | <b>MEAN</b> | <b>S.D</b> |
|-------------|---|------------------|-------------|------------|
| 1.          | ACHIEVED FLEXIBILITY TO ACCOMMODATE BOTH BUSINESS | TO FAMILY1       | 5.70        | 1.076      |

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| AND FAMILY RESPONSIBILITIES |                                     |         |      |       |
|-----------------------------|-------------------------------------|---------|------|-------|
| 2.                          | HELPED OTHER FAMILY MEMBERS         | FAMILY2 | 5.43 | 1.267 |
| 3.                          | SECURED A FUTURE FOR FAMILY MEMBERS | FAMILY5 | 5.33 | 1.381 |
| 4.                          | INCREASED MY FAMILY STATUS          | FAMILY4 | 5.32 | 1.299 |
| 5.                          | ACQUIRED MORE MONEY FOR FAMILY      | FAMILY3 | 5.27 | 1.344 |
| 6.                          | BUILT A BUSINESS TO PASS ON         | FAMILY6 | 5.09 | 1.459 |

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NOTE: S.D = STANDARD DEVIATION

ALMOST SIMILAR WITH THE DISCUSSION OF THE TWO PREVIOUS GOALS, FRANCHISEES ARE ALSO SATISFIED WITH THE CHANCE TO SECURE A FUTURE FOR FAMILY MEMBERS. THIS GOAL IS CORRELATED WITH PREVIOUS GOALS AND THAT MAY EXPLAIN WHY THIS FACTOR RECEIVED THE THIRD HIGHEST SATISFACTION. THE RESULT INDICATES THAT FRANCHISEES APPRECIATE THE PROSPECT OF SECURING A FUTURE FOR FAMILY MEMBERS SUCH AS EARNING AN INCOME FOR THEIR FAMILIES (KAPLAN 2003) AND BUILDING A BUSINESS THAT FAMILY MEMBERS CAN DEPEND ON (SCHAPER AND VOLERY 2007). THIS RESULT SUPPORTS SIMILAR GOALS EXISTING IN ENTREPRENEURSHIP LITERATURE (ALSTETE 2002; KURATKO ET AL. 1997; MITCHELL 2004; SWIERCZEK AND HA 2003). FURTHER, THIS RESULT PROVIDES NEW EVIDENCE RELATED WITH FAMILY MATTERS WITHIN FRANCHISING STUDIES.

BESIDES PROVIDING JOBS FOR FAMILY MEMBERS, FRANCHISEES ALSO AIM TO INCREASE THEIR FAMILY STATUS. FAMILY STATUS CAN BE INCREASED IF FRANCHISEES' RELATIVES CAN WORK TOGETHER IN THE FRANCHISING BUSINESS, AND IS ESPECIALLY RELATED WITH EMPLOYMENT OPPORTUNITIES AND ECONOMIC REWARDS. FURTHER, WHEN THE BUSINESS IS GROWING, MORE EMPLOYMENT OPPORTUNITIES AND MORE PROFITS CAN BE SHARED AMONG EMPLOYEES AND SHAREHOLDERS. THIS EVIDENCE SUPPORTS CURRENT FINDINGS IN ENTREPRENEURSHIP LITERATURE (BASU 1998; MITCHELL 2004; SWIERCZEK AND HA 2003) AND STRENGTHENS THE ONLY EVIDENCE RELATED WITH FAMILY MATTERS WITHIN FRANCHISING STUDIES (KAUFMANN AND STANWORTH 1995).

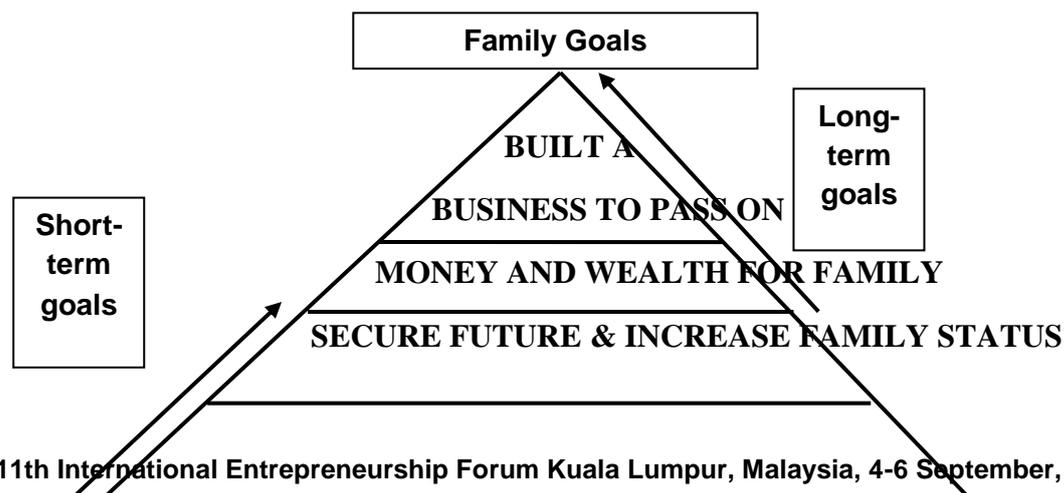
NOT MANY LITERATURES MENTION 'ACQUIRED MORE MONEY FOR FAMILY' AS ONE OF THE IMPORTANT GOALS ASSOCIATED WITH FAMILY CONCERN GOALS (SCHAPER AND VOLERY 2007; KAPLAN 2003). THIS STUDY INDICATES THE IMPORTANCE OF THIS GOAL AMONG FRANCHISEES. THUS, THIS STUDY SUPPORTS THE CURRENT EVIDENCES IN ENTREPRENEURSHIP LITERATURE (DICKEY AND IVES 2000; SWIERCZEK AND HA 2003) AND STRENGTHENS THIS GOAL AS ONE OF THE IMPORTANT GOALS TARGETED BY FRANCHISEES (TUUNANEN AND HYRSKY 2001). IT SEEMS THAT THIS GOAL COMPLIMENTS

OTHER GOALS SUCH AS HELPING OTHER FAMILY MEMBERS AND SECURING A FUTURE FOR FAMILY MEMBERS.

LASTLY, FRANCHISEES ARE SATISFIED WITH THE GOAL TO BUILD A BUSINESS TO PASS ON. CONCEPTUALLY, ONLY HATTEN (2009) MENTIONED HOW BUSINESS OWNERS ARE MOTIVATED BY FAMILY CONCERN GOALS AND PERCEIVED THEIR BUSINESS AS A LEGACY FOR THEIR CHILDREN. THUS, THIS EVIDENCE ENHANCES CURRENT FINDINGS IN ENTREPRENEURSHIP LITERATURE (ALSTETE 2002; BASU 2004; KURATKO ET AL. 1997; MORRIS ET AL. 2006) AND PROVIDES NEW EVIDENCE IN FRANCHISING LITERATURE. THIS GOAL MAY ACHIEVE THE LOWEST SATISFACTION LEVEL SINCE FRANCHISEES DO NOT HOLD ULTIMATE CONTROL OF THEIR BUSINESS AS THEY HAVE TO FOLLOW MANY SYSTEMS AND PROCEDURES DETERMINED BY THE FRANCHISOR AND THE SURVIVAL OF THE BUSINESS ALSO DEPENDS ON THE APPROVAL FROM THE FRANCHISOR.

OVERALL, THE RESULTS SUGGEST A HIERARCHY OF FAMILY GOALS (HFG). FLEXIBILITY IN ACCOMMODATING JOBS AND FAMILY RESPONSIBILITIES AND INTENTION TO HELP OTHER FAMILY MEMBERS (WITH PART TIME JOBS FOR EXAMPLE) ARE THE BASIC GOALS ASSOCIATED WITH FAMILY GOALS. AS THE BUSINESS GROWS, FRANCHISEES CAN SECURE JOBS FOR THEIR FAMILY (APPOINTED AS MANAGER FOR INSTANCE) AND INCREASE THEIR FAMILY STATUS (BECOMING MIDDLE CLASS FOR EXAMPLE) WITHIN THE BUSINESS (INTERMEDIATE GOALS). THEN, AS THE BUSINESS IS EXPANDING AND PROFIT IS ALSO INCREASING, FRANCHISEES CAN GIVE MORE MONEY AND WEALTH TO THEIR FAMILY (ADVANCE GOALS). LASTLY, IN LONG-TERM GOALS, FRANCHISEES CAN PASS THEIR SUCCESSFUL BUSINESS TO THEIR HEIR(S) (ADVANCE GOALS). FIGURE 2 SIMPLIFIES THE HIERARCHY OF FAMILY GOALS. IN BRIEF, FAMILY GOALS CAN BE ACHIEVED IF ECONOMIC GOALS ARE ACHIEVED. THIS IS REFLECTED BY THE HIGHER CORRELATION BETWEEN ECONOMIC GAIN GOALS AND FAMILY CONCERN GOALS (PEARSON'S CORRELATION = 0.833).

**FIGURE 2: HIERARCHY OF FAMILY GOALS**



## **FLEXIBILITY IN JOBS AND HELP OTHER FAMILY MEMBERS**

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IN SUMMARY, THE RESULTS INDICATE THAT FRANCHISEES ARE SIMILAR TO ENTREPRENEURS IN TERMS OF THEIR PERSONAL GOALS IN THE BUSINESS. BESIDES, TWO HIERARCHIES OF ENTREPRENEUR'S GOALS ARE CONSTRUCTED BASED ON THE CONTINUUM ASPECT OF THE VARIABLES AND STATISTICAL RESULTS. PROBABLY, THIS IS THE FIRST STUDY TO SUGGEST THE EXISTENCE OF HIERARCHY AMONG ENTREPRENEUR GOALS.

### **CONCLUSION**

IN GENERAL, WHILE PEOPLE ARE MOTIVATED BY MONEY IN BECOMING FRANCHISEE ENTREPRENEUR, THIS PAPER SHOWS THAT FRANCHISEE ENTREPRENEUR HAVE THE HIGHEST SATISFACTION WITH THE SELF-FULFILMENT ACHIEVED IN FRANCHISING BUSINESS AND A DESIRE FOR AUTONOMY. FURTHER, FRANCHISEE ENTREPRENEUR ALSO SATISFIED WITH THE PERSONAL GOALS RELATED TO THE NECESSITY TO CATER FOR FAMILY NEEDS. MOREOVER, THIS STUDY SHOWS FRANCHISEES HAVE LESS SATISFACTION WITH ECONOMIC GAIN GOALS. PROBABLY, FRANCHISEES ARE NOT SATISFIED WITH PROFIT SHARING BETWEEN THEM AND FRANCHISOR AND THE OBLIGATION TO PAY SEVERAL FEES TO FRANCHISOR (SUCH AS SALES ROYALTY AND ADVERTISING AND PROMOTION FEE). IN BRIEF, THESE EVIDENCES SHOW THAT FRANCHISEES ARE SIMILAR WITH ENTREPRENEUR IN TERMS OF THEIR PERSONAL GOALS TO BE ATTAINED IN THE BUSINESS AND ENABLE THEM TO SHARE THE TITLE OF ENTREPRENEUR WITHIN THE UNIQUE DOMAIN OF ENTREPRENEURSHIP AND FRANCHISING LITERATURE.

NEXT, HIERARCHY OF ECONOMIC GOALS (HEG) AND HIERARCHY OF FAMILY GOALS (HFG) ARE SUGGESTED IN THIS PAPER. AS FAR AS THE RESEARCHERS ARE CONCERNED, THIS MAY BE THE ONLY STUDY THAT SUGGESTS THAT ENTREPRENEUR'S ECONOMIC GOALS AND FAMILY GOALS CAN BE PERCEIVED WITHIN A HIERARCHICAL PERSPECTIVE AND HFG CAN BE ATTAINED IF HEG IS ATTAINED. THIS IS CONFIRMED AS CORRELATIONS BETWEEN BOTH GOALS ARE HIGH. MORE STUDY AND EMPIRICAL EVIDENCES ARE NEEDED TO CLARIFY THE EXISTENCE OF HIERARCHY OF ENTREPRENEUR GOALS. LASTLY, SINCE SATISFACTION IS THE KEY IN THE FRANCHISEE-FRANCHISOR RELATIONSHIP (ABDULLAH ET AL. 2008; CHIOU ET AL. 2004; MORRISON 1996; ROH AND YOON 2009; YAQUB ET AL. 2010), THESE PRELIMINARY EVIDENCES DO SUGGEST THAT SUSTAINABILITY OF FRANCHISEES IN THE BUSINESS MAY DEPEND ON THE ATTAINMENT OF THEIR PERSONAL GOALS IN THE BUSINESS.

### **LIMITATIONS OF THE STUDY**

THIS PAPER IS NOT WITHOUT LIMITATIONS. SEVERAL LIMITATIONS OF THIS STUDY ARE DISCUSSED AS FOLLOWS. FIRST, NO INFORMATION ON THE

CHANGES OF FRANCHISEE GOALS ATTAINMENT OVER A PERIOD OF TIME CAN BE EXPLORED. HOWEVER, A LONGITUDINAL STUDY IS RELATIVELY LITTLE USED IN THE SOCIAL RESEARCH CONTEXT (BRYMAN 2008). HENCE, A CROSS-SECTIONAL STUDY IS A GOOD ALTERNATIVE AS IT IS ONE OF THE METHODOLOGIES ASSOCIATED WITH THE POSITIVIST APPROACH EMPLOYED IN THIS STUDY. THE SECOND LIMITATION IS THAT THE SCOPE OF THE PRESENT STUDY IS CONFINED TO RESPONDENTS FROM MALAYSIA ONLY. THEREFORE, IT IS NOT ENOUGH TO ALLOW GENERALISATIONS APPLICABLE TO THE GENERAL POPULATION OF FRANCHISEES IN THE WORLD. HOWEVER, THE METHODS APPLIED IN THE PRESENT STUDY DO PROVIDE VALUABLE INFORMATION FOR FURTHER RESEARCH.

ANOTHER LIMITATION IS WHILE THE SAMPLING SIZE IS SUFFICIENTLY LARGE ENOUGH TO FACILITATE STATISTICAL TESTING, IT IS NOT LARGE ENOUGH TO ALLOW GENERALISATIONS APPLICABLE TO THE GENERAL POPULATION OF FRANCHISEES IN MALAYSIA. FURTHER THE EMPLOYMENT OF NON-PROBABILITY SAMPLING ALSO WILL NOT ALLOW GENERALISATIONS APPLICABLE TO THE GENERAL POPULATION OF FRANCHISEES IN MALAYSIA. HOWEVER, THESE FINDINGS ARE RELEVANT TO THE POPULATION STUDIED AND WOULD NOT NECESSARILY BE APPROPRIATE IF THEY WERE APPLIED TO A LARGER OR DIFFERENT STUDY SAMPLE. NEVERTHELESS, AS POINTED BY CALDER AT EL. (1982) IN LEE AND LINGS (2008), THIS STUDY WITH A NON-PROBABILITY SAMPLING TECHNIQUE DOES PROVIDE SIGNIFICANT RESULTS TO SUPPORT THE PROPOSED THEORY. NEXT, THIS STUDY USED A QUANTITATIVE APPROACH AND UTILISED SELF-COMPLETION QUESTIONNAIRES IN WHICH RESPONDENTS PROVIDED ANSWERS ONLY TO THE QUESTIONS ASKED. AN INTERVIEW CAN LEAD TO MORE IN-DEPTH INFORMATION. NEVERTHELESS, THE UTILISATION OF A QUANTITATIVE TECHNIQUE AND QUESTIONNAIRES ARE APPROPRIATE TO ENABLE THE RESEARCHER TO EXAMINE AND EXPLAIN RELATIONSHIPS BETWEEN VARIABLES. RECOGNIZING THESE LIMITATIONS IS CONSIDERED IMPORTANT AS THEY PROVIDE A DIRECTION FOR FURTHER LARGE-SCALE RESEARCH TO ADVANCE THE UNDERSTANDING OF FRANCHISEE'S GOAL ATTAINMENT IN A FRANCHISE SYSTEM. SOME RECOMMENDATIONS FOR FUTURE RESEARCH ARE SUGGESTED IN THE NEXT SECTION.

## **RECOMMENDATIONS FOR FURTHER RESEARCH**

WITH THE INSIGHT AND EXPERIENCES DRAWN FROM THE FINDINGS OF THE PRESENT STUDY AND THE DISCUSSION OF THEIR IMPLICATIONS AND LIMITATIONS, SOME SUGGESTIONS FOR FURTHER RESEARCH ARE PRESENTED BELOW.

- a) SIMILAR FRANCHISEE STUDIES THAT UTILIZE THE SAME QUESTIONNAIRE CAN BE REPLICATED TO OTHER COUNTRIES AND RESPONDENTS. THIS CAN WIDEN THE SCOPE OF THE PRESENT STUDY, ENHANCE THE

GENERALIZATION OF THE RESULTS AND IMPROVE THE VALIDITY AND RELIABILITY OF THE QUESTIONNAIRE. IT IS HOPED THAT A COMPARATIVE STUDY OF GOALS ATTAINMENT FROM MANY COUNTRIES CAN OFFER MORE INSIGHTS ON THE EFFECT OF DIFFERENT VALUES, CULTURE, AND LOCAL ENVIRONMENT ON THE FRANCHISEE'S BEHAVIOUR.

- b) NEW RESEARCH IN THE FUTURE WITHIN THE SAME PURPOSES SHOULD BE DIRECTED TOWARD LONGITUDINAL STUDIES. SUCH LONGITUDINAL STUDIES CAN OFFER THE CHANGES OF FRANCHISEES' GOALS WITHIN THE PASSAGE OF TIME AND WILL BE OF GREAT USE IN THE FIELD OF ENTREPRENEURIAL STUDIES SPECIFICALLY.
- c) IF THE SAMPLING FRAME CAN BE ESTABLISHED IN THE FUTURE, PROBABILITY SAMPLING IS PREFERRED AS IT REFLECTS THE CHARACTERISTICS OF THE POPULATION AND IT IS SAFE TO GENERALIZE FROM THAT SAMPLE TO THAT POPULATION. IF IT IS IMPOSSIBLE TO ESTABLISH THE SAMPLING FRAME, FUTURE RESEARCH SHOULD UTILISE A LARGER SAMPLE FRAME IN ORDER TO GENERALISE THE RESEARCH FINDINGS.
- d) SINCE PREVIOUS STUDIES AND THE PRESENT STUDY ON INTENTION TO REMAIN UTILISE A POSITIVIST APPROACH, NO INSIGHTS FROM SOCIAL CONSTRUCTIONISM APPROACH IS PRESENTED WITHIN CURRENT KNOWLEDGE. THEREFORE, A QUALITATIVE RESEARCH IS RECOMMENDED FOR FUTURE RESEARCH. DIFFERENCES OF ONTOLOGY, EPISTEMOLOGY AND AXIOLOGICAL ASPECTS BETWEEN THE POSITIVIST APPROACH AND SOCIAL CONSTRUCTIONISM APPROACH CAN PROVIDE NEW KNOWLEDGE ON THE SAME SUBJECT MATTER.
- e) MORE ENTREPRENEURSHIP STUDIES SHOULD BE CONDUCTED TO ENDORSE ENTREPRENEUR'S GOAL ATTAINMENT THEORY (EGAT) PROPOSED IN THIS PAPER. HOPEFULLY, FUTURE STUDIES WOULD BACK UP THE BASIC ASSUMPTIONS OF EGAT, VERIFY AND INCREASE THE PROPOSITIONS SUGGESTED, ADD MORE EVIDENCE OF RELATIONSHIPS BETWEEN GOAL ATTAINMENT AND BUSINESS OUTCOME AND LASTLY ENHANCE THE EXPLANATORY VALUE OF EGAT WITHIN ENTREPRENEURSHIP RESEARCH.

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# “GENERATING AN ENTREPRENEURIAL INDEX TO ASSESS ENTREPRENEURSHIP CHARACTERISTICS: A LITERATURE REVIEW AND DEVELOPMENT PROCESS”

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## **Abstract**

**Objectives:** The objectives of this Paper are to undertake a literature review of research and contributions of authors working in different countries and different industries on the characteristics of throughout the entrepreneurship life cycle. Ultimately, the findings lead to the establishment of a conceptual framework to develop an entrepreneurial index to assess entrepreneurship characteristics – intentions, start-up (execute) and grow (sustainability).

**Theoretical Background/Previous Practice:** The entrepreneurship literature is complicated by the various definitions of entrepreneurship and entrepreneurs which pose challenges in setting the reference point for entrepreneurship and entrepreneurs and their relationship with motivation (intention, and performance (execution and sustainability)). There is complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. Most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent.

**Approach/Methods:** This Paper starts with a review of the development of a conceptual framework for the development of an entrepreneurial index to assess entrepreneurship characteristics. It looks at contributions by authors on the understanding of entrepreneurship life cycle and the entrepreneurship characteristics from the starting point (intention and execution) to the end of the life cycle. These characteristics in the prominent stages of the life cycle are identified to form a model for the entrepreneurial index.

**Results/Insights:** The findings suggested that the prominent stages of the entrepreneurship life cycle are clearly grouped into three main stages : intention, start-up (execution) and growth (sustainability) in which the dominant entrepreneurship characteristics are identified. These are relevant and useful for the establishment of the domains and dimensions for the conceptual framework for the development of the entrepreneurial index.

**Implications:** This conceptual framework sets the stage for the selection of entrepreneurs to engage in focus group studies to determine the relevancy and significance of the entrepreneurship characteristics identified in the prominent stages of the entrepreneurship life cycle. Arising from such focus group studies, questionnaires for pilot survey could be

formulated for further survey to validate the domains and dimensions and assign a suitable weightage in the entrepreneurial index. Consequently, this Index is used to gauge the level of entrepreneurship intention, start-up (execution) and growth (sustainability) to enhance business success and economic growth.

**Keywords:** Entrepreneurs, Entrepreneurship, Entrepreneurship Intention, Business Start-up, Business Sustainability.

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## **Introduction**

Throughout the ages, domestic entrepreneurs have played significant roles in substantially enhancing the economy of their respective nations. Ironically, the level of entrepreneurship characteristics (inspiration, traits, skills, etc) which they possess, and their contributions in the national economy, are yet to be properly assessed and appreciated. The entrepreneur is widely regarded as an integral player in the business culture of a nation, and particularly as an engine for job and wealth creation. Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking.

The entrepreneurship literature is complicated by the differing definitions of entrepreneurship and entrepreneurs. The controversy in these definitions pose challenges in setting the reference point for entrepreneurship and entrepreneur and their relationship with intention (motivation) and performance (execution and sustainability). According to Schumpeter (1934), an entrepreneur characteristically, innovates, introduces new technologies, increases efficiency, productivity, or generates new products or services. There is a complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur.

Many researchers have defined entrepreneurship as the creation of a new venture or a new organisation (Garner 1988). Lumpkin and Dess (1996) suggested that entrepreneurship encompasses every step taken by an entrepreneur in entry to a new business and problems of new start-ups, while entrepreneurial orientation encompasses the processes; methods, practices, decision-making styles managers use to act entrepreneurially. Entrepreneurial orientation comprises five dimensions; autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness (Lumpkin & Dess, 1996). The five dimensions may determine the success of new business formation (entrepreneurship) or the successful managing of a new business (entrepreneurial orientation).

Other researchers such as Garner (1988), Aldrich & Zimmer (1996), Low & Macmillan (1988) criticised the psychological traits approach to entrepreneurship and concluded that

there are no personality characteristics that predict who will attempt to, or be, a successful entrepreneur. Garner (1988) and Vesper (1980) suggested that creation of an organisation is a complex process and the outcome of many influences.

Researchers in the Global Entrepreneurship Monitor (GEM) made some headway in understanding how different types of entrepreneurship affect economic development. They distinguish “necessity entrepreneurship” which is having to become an entrepreneur because you have no better option, from “opportunity entrepreneurship” which is an active choice to start a new enterprise, based on the perception that an unexploited or underexploited business opportunity exists. Data collected and analysed by GEM researchers on eleven countries show no economic development in “necessity entrepreneurship”, while “opportunity entrepreneurship” shows a positive and significant effect on economic development.

Most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent. Following this premise, some of the literature review conducted reveals certain traits and characteristics of entrepreneurship in order to:

- provide insight of the prominent stages of the entrepreneurship life cycle where entrepreneurship characteristics are clearly evidenced .
- entrepreneurship characteristics which lead to the entrepreneurial intention and starting point (execution) of the entrepreneurship life cycle and the progress to subsequent stages, until the sustainability of successful entrepreneurship.
- identify the domains and dimension for the establishment of the conceptual framework in the development of the entrepreneurial index to assess entrepreneurship characteristics.

This Paper starts with a review of the development of a conceptual framework in order to produce an entrepreneurial index to assess the entrepreneurship characteristics. It reviews the contributions of authors on the understanding of the entrepreneurship life cycle and the entrepreneurship characteristics from the starting point to the end of the life cycle. The entrepreneurship characteristics in the prominent stages of the life cycle are identified to form a framework for the entrepreneurial index.

### **Entrepreneurial Orientation**

A firm’s entrepreneurial orientation (EO) refers to the entrepreneurial activities, how the entrepreneur undertakes the methods, practices and decision-making styles to act entrepreneurially. Lumpkin and Dess (1996) suggested that an EO represents entrepreneurial processes that address the question of how new ventures are undertaken, whereas entrepreneurship refers to the content of entrepreneurial decisions by addressing what is undertaken. EO also refers to the entrepreneur’s disposition to autonomy, encourages

experimentation (innovativeness), takes risk, takes initiatives (proactiveness) and aggressively competes within its market.

Covin and Stevin (1989); Ginsberg (1985); Lumpkin and Dess (1996); Morris & Paul (1987); Schafer (1990); advanced Schumpeter's (1934, 1942) definition and defined innovativeness as the firm's propensity to engage in new idea generation, experimentation and research and development activities. This covers the development and enhancement of products and services and new administrative techniques and technologies for performing organisational functions.

### **Entrepreneurship Life Cycle**

In order to foster entrepreneurship as an engine of economic growth and to ensure sustainability of entrepreneurship ventures, it is vital to understand the prominent stages of life cycle of entrepreneurship and identify the entrepreneurship characteristics at each stage. This is to enable stakeholders such as government agencies, venture capitalists, investors, enterprises owners, financial providers, educators and other interested parties to foster, plan and monitor entrepreneurial ventures.

The Global Entrepreneurship Institute identifies seven stages in the entrepreneurial life cycle:

*1. Opportunity recognition.* This "gestation" period can range from one month to ten years which involves understanding the opportunity and deciding whether it is attractive or unattractive. One needs to look internally and see if he/she is truly ready for entrepreneurship. The majority of people never take off in this stage and remain just considering entrepreneurship.

*2. Opportunity focusing.* Here shaky ideas and gaping holes are exposed for a go or no go. Venture capitalist Eugene Kleiner says "Focus is essential; there can be the possibility of the business branching out later, but the first phase of a company should be quite narrowly defined". Objectives and outside viewpoints are important because different people who look at the same opportunity can come to opposite conclusions.

*3. Commitment of resources.* This stage starts with developing a business plan which require a new level of understanding and intense commitment. The process can take 200-300 hours stretching to 3-12 months.

4. *Market entry.* The entrepreneur is committed with a small organisation in which resources are correctly allocated according to the business plan and the first sales were made. This is what defines success in the very early stages. If the business is profitable and the venture is on track and healthy, then the entrepreneur can choose between a capital infusion for growth or remaining small with self-financing (bootstrapping).

5. *Full launch and growth.* The entrepreneur needs to choose a particular high-growth strategy and has the option to remain at a status quo and never pass this stage, as not all small ventures can or will become big companies. This could be attributed to a lack of fast growth potential due to adverse market conditions and/or demanding production and management systems which are too great a challenge to the management.

6. *Maturity and expansion.* The venture is a market leader at cruising altitude. The growth becomes a natural extension of the venture through professional management practices.

7. *Liquidity event.* This harvesting stage is focused on capturing the value created in the previous stages through a business exit. Typical exits are an initial public offering (IPO) or acquisition by larger public corporations. The opportunity to exit successfully from a venture is a significant factor in the entrepreneurial life cycle, both for the entrepreneur and for any investors providing investment capital along the way.

Ian Hunter (2005) suggested five stages in the life cycle of the entrepreneur:

1. *Preparation.* The early years of an entrepreneur's life acted as a preparation stage for their eventual business activities. The key characteristics of this stage included early work experience, acquisition of technical skill, the accumulation of capital, the formation of initial networks, the accumulation of trade and industry knowledge and identification of opportunity.

2. *Embarkation.* In this stage, the entrepreneur commences his/her enterprise. The major challenges during this stage of the entrepreneurial life cycle included: the establishment of a new enterprise; difficulties in market acceptance of new product; or service innovation; limited capital; expansion through reinvestment of profits; increase in trade networks and industry knowledge; fostering trust in regards to suppliers, customers, staff; and risk of venture failure.

3. *Exploration.* During the third stage in the life cycle the entrepreneur looks to start further ventures. This stage was characterised by new initiatives, innovation, new partners, additional

capital, commercial success and risk of failure. It is during this stage of the entrepreneur's career that they would typically embark on the venture that would be the most successful of their career and enjoy increased levels of knowledge, trust, networks and decision-making skill.

*4. Expansion.* This stage described the particular strategies by which entrepreneurs developed their enterprises. It was characterised by the entrepreneur concentrating on their most successful business venture to date; new capital often entered the business; the growth strategy of the entrepreneur became apparent; the entrepreneur began to invest in other ventures with some diversifying their business interests and family members entering the firm.

*5. Transformation.* This fifth and final stage would signify the end of the entrepreneur's career. This period is characterised by the changeover to the next generation as leadership of the firm often passed to the founder's family members, with associated changes in company structure. Some ventures at this point were also marked by cessation. When there was no heir apparent, the death of the founder effectively brought the venture to an end as a family firm. Characteristically, problems of governance prompted the final period of transformation. During this transition point, the entrepreneur faced the challenges of passing on the leadership of his enterprise or enterprises to the next generation.

Charlie Gilkey (2010) observes that there are five distinct stages in the business lifecycle:

*Stage 0 – The Aspirational Stage.* People in this stage want to start a business and like the idea of it, but they haven't committed to becoming entrepreneurs.

*Stage 1 – The Entry Stage.* These are people who have decided to start a business and are actively building their market and offers. They may not have many or any customers, but they're no longer sitting on the fence about being an entrepreneur.

*Stage 2 – The Growth Stage.* Entrepreneurs in the growth stage have a business plan and are growing their revenue streams with new clients and customers. They are not running at full capacity yet, but there's no longer a question that they have a viable business model.

*Stage 3 – The Crucible Stage.* Entrepreneurs in this stage are in the delightfully frustrating point in which they are working at full steam, but the demand for their goods and services outstrips their ability to meet it. Something has to give, but many times they don't want to let go of the business activities that have gotten them into this stage.

*Stage 4 – The Cruise Stage.* Entrepreneurs in this stage have figured out what it was that kept them bottlenecked and constricted at Stage 3, fixed it, and are now running full steam ahead.

They have the necessary team and support that allows them to focus on their core competencies, or, if they don't, they have a specific plan in place to get those resources.

In order to focus on the role of entrepreneurs in their contributions to economic growth, it is therefore reasonable to identify key stages of the entrepreneurship life cycle in which dominant entrepreneurship characteristics can be identified. Shaver and Scott (1991) suggested that personality traits have proven to be intriguing but imperfect for assessing many aspects of entrepreneurship including intending to start a business, starting a business, succeeding in running a business, and incorporating intrapreneurship. It is suggested that three key stages of the entrepreneurship life cycle be identified to assess the entrepreneurship characteristics : entrepreneurship intention, business start-up (execution) and business growth (sustainability).

### **Entrepreneurial Intention**

In order for any business venture to materialise, it is a prerequisite for an individual to possess the intention to enter into entrepreneurship. Forming an intention to develop an entrepreneurial career is the first step in the often long process of venture creation (Gartner et al., 1994). Entrepreneurship is often defined as the opportunistic pursuit of economic wealth. Low and Macmillan (1988) define entrepreneurship as “creation of new enterprise” which leads to our definition of entrepreneurial intention as the intention to start a new business. Bygrave (1994) defines an entrepreneur as someone who perceives an opportunity and creates an organisation to pursue it.

The pull/push model is a common way of explaining the motives of starting a business (Brush, 1999; Buttner and Moore, 1997). Push factors refer to necessities such as unemployment, glass ceiling, redundancy, recession, financial reasons (inadequate family income), dissatisfaction with being employed, or the need to accommodate work and home roles simultaneously. On the other hand, pull factors are related to the need for independence, need for achievement, financial reasons (desires for profit-wealth), personal development, self-fulfillment, social status and power (Hansemark, 1988; Glancey et al., 1998).

*Achievement motivation.* According to David McClelland (1961), achievement motivation is critical to economic development and progress. The need for achievement refers to the tendency to choose and persist at activities that hold a moderate chance of success or a maximum opportunity of personal achievement satisfaction without the undue risk of failure.

Achievement motivation was singled out by Babb (1992) as the most prevalent predictor of entrepreneurship. Shaver and Scott (1991) found a positive relationship between achievement motivation and entrepreneurial behaviour.

Cassidy and Lynn (1989) suggest the entrepreneur's achievement motivation was measured by four items: the work ethic, the pursuit of excellence, mastery and dominance. A study on female entrepreneurs in Greece shows that motivation to undertake entrepreneurship are related to economic reason and self-fulfillment, including the needs for creativity, autonomy and independence (Sarri and Trihopoulou, 2005).

*Risk and ambiguity tolerance.* In a new venture, the entrepreneur faces the risk of financial failure and possible embarrassment. The tolerance for risk is more common among people choosing to become entrepreneurs. The lack of consistency in the research on risk taking among entrepreneurs may be explained by variation in the perception of risk (Corman et al., 1988; Shaver and Scott, 1991). Bird (1989) divides risks into five types: economic risk, risks in social relations, risks in career development, psychological and health risks.

Budner (1962) defined tolerance for ambiguity as the "tendency to perceive ambiguous situations as sources of threat". Compared to managers, entrepreneurs possess a significantly higher level of tolerance for ambiguity (Low and MacMillian, 1988). An ambiguous situation exists when information provided is too complex, inadequate or apparently contradictory (Norton, 1975). A person with low tolerance of ambiguity experiences stress, reacts prematurely and avoids ambiguous stimuli. Whereas, one with high tolerance of ambiguity perceives ambiguous situations/stimuli as desirable, challenging and interesting.

The ability to tolerate ambiguous situations is positively related to the risk taking behaviour of the entrepreneur. Risk taking requires a certain degree of tolerance for ambiguity. Tsui (1993) observes individuals with intolerance for ambiguity tend to perceive higher degrees of risks under the same situations. Proactive entrepreneurs do not abide by traditional ways, but they continually question it to improve and introduce better methods of operation and management.

*Locus of control and personal efficacy.* People with an internal locus of control believe that their life outcomes are results of their own actions such as hard work, while those with an external locus of control believe that events are controlled by luck of external phenomena (Rotter, 1966). Gatewood et al., (1995) suggests an internal locus of control has been associated with entrepreneurial venturing and success. Brockhaus (1982), Lao (1970), indicated that individuals with internal locus of control often have a more expressed need for achievement.

Khan and Manopichetwattana (1989) found a positive relationship between internal locus of control and innovation in a study of 50 manufacturing small businesses in Texas. Boone, Debrabandar and Van Witteloostujin (1996) empirical research focused on the furniture industry found internal locus of control was associated with company performance. These findings reinforced prior findings (Begley and Boyd, 1987; Bonnett and Furnham, 1991; Nwachuku, 1995) that internal locus of control is an important entrepreneurial psychological trait.

Theories that might predict entrepreneurial intentions include that of planned behaviour (Ajzen, 1991). The Theory of Planned Behaviour (TPB) has been shown to predict entrepreneurial intentions most consistently (Autio et al., 2001; Engle, et al., 2010; Kolveried et al., 2007; Krueger et al., 2000; Moriano et al., 2011). The TPB suggests that behavioural intentions are determined by three key antecedents: attitudes towards the behaviour, subjective norms and perceived behaviour control.

Having identified the dominant entrepreneurship characteristics that are evidenced in individuals who have high entrepreneurial intention, will provide useful guidelines to stakeholders such as government agencies, investors, etc to drive these individuals to engage in business start-ups (execution) as the starting point of the entrepreneurial journey.

### **Business Start-up (Entrepreneurship)**

Starting a new business is an individual decision in which the individual qualities as an entrepreneur are important in the study of entrepreneurship characteristics. During the start-up phase, the important characteristics an entrepreneur must include innovativeness and the will to act (Tibbits, 1979; Bird, 1989). The characteristics typical of a successful entrepreneur are the ability to take risks, innovativeness, knowledge of how the market functions, manufacturing know-how, marketing skills, business management skills and the ability to cooperate (Casson, 1982). Caird (1988) mentions of a good nose for business, the desire to take risks, the ability to identify business opportunities, the ability to correct errors effectively and the ability to grasp profitable opportunities as characteristics of an entrepreneur. The know-how of an entrepreneur is highlighted in the entrepreneur's ability to recognise and react to the change constantly occurring in the competitive environment of a firm (Gartner, 1985). Training, relevant experience and tacit knowledge seem to contribute to the success of firms (Vesper, 1992).

Accordingly to Low and MacMillan (1988), the network theories are increasingly being applied to entrepreneurship research. Sweeney (1987) underlined that networking is especially important in technological venturing. Entrepreneurial networks can be divided into two types derived from different sources: informal and formal networks (Birley, 1985; Johannisson, 1985). Informal entrepreneurial networks consists of personal relationships,

families and business contacts. On the other hand, formal networks consist of venture capitalists, banks, accountants, creditors, lawyers and trade associations (Das and Teng, 1997).

Emphasis on the drive to solve problems is important for the success of the start-up phase and increases the firm's chances of surviving during the critical operational phase (Littunen et al., 1998) The entrepreneur's initial activities during the start-up period and his/her actions as an entrepreneur were part of the entrepreneurial learning process which had effects on the personal characteristics of the entrepreneur.

The reasons why some entrepreneurs are more successful than others in starting new ventures may be attributed to personality traits or susceptibility to various cognitive errors of entrepreneurs or on external factors . Baron and Markman (2000) suggested entrepreneurs' social skills may also play a role in their success. They identified four specific social skills being most significant to entrepreneurs' success. These are social perception, impression management, persuasion and influence and social adaptability.

Simpson, Tuck and Bellamy (2004) suggested a range of criteria associated with success in terms of individual characteristics, organisational values and performance measures. In their investigations on small service sector firms in UK, it was found that education and training had positive effect on the success of the business.

The ultimate goal of a business start-up is to ensure that a business venture is materialised by utilising the required resources to achieve the desired results and objectives. An entrepreneur who has successfully started-up his business and attained the desired results within the stipulated time will face subsequent challenges for business growth and sustainability of the entrepreneurship.

### **Business Success and Growth (Sustainability)**

The greatest challenge to an entrepreneur is to ensure continued business growth in order to sustain in business. Interestingly, many researches are conducted all over the world, across different industries to identify and understand factors leading to business success and sustainability.

Man and Lau (2005) used the competency approach in studying entrepreneurship characteristics in Hong Kong. Thomas and Herrister (1991) suggested that the competency approach seeks to identify long-lasting individual characteristics leading to success or performance in a job and subsequently, in an organisation. Bartlett and Ghoshal (1997) classified three categories of competencies: attitudes/traits, knowledge/experience and skills/abilities. Similarly, Burgoyne (1988) regarded competencies as having both skills and

willingness. Stuart and Lindsay (1997) described components of competencies that make up and add style to the competencies, including a person's skills, knowledge and personal characteristics. In a study by Man (2001), ten areas of entrepreneurial competencies from a behavioural perspective have been distinguished: opportunity, relationship, analytical, innovative, operational, human, strategic, commitment, learning and personal strength competencies.

A survey by Bhutta and Asad (2008) on 651 SMEs from the manufacturing sector of Pakistan suggests the health of the a firm depends on education, generation setting up the business, number of partners and owner habits. A study by Abdullah, Hamali, Deen, Saban and Abdurahman (2009) found eight factors which are vital to the success of Bumiputera entrepreneurs in Malaysia in rank order : advancement drive, achievement oriented commitment, decision making ability, managing risks, tenacity, networking and optimism.

A study by Rozell, Meyer, Scroggins and Guo (2011) on 25 MBA students owning their own business from the Henan University, China the following characteristics were noted from the focus groups: passionate and hardworking, exploratory and adventurous/visionary, willingness to learn, knowledgeable and competent, exercises good judgement, communication and networking, determined and resolute, strong moral character, focus on the collective/others, and identifies with country culture.

**Entrepreneurship Characteristics Framework**

From the literature review, the dominant entrepreneurship characteristics which can be related to the prominent stages of the entrepreneurship life cycle provide useful guide to establish the domains and dimensions for the conceptual framework in the development of the entrepreneurial index – entrepreneurial intention, business start-up (act) and business success (growth/sustainability).

**Entrepreneurship Characteristics Framework**

| <b>Prominent Stages of Entrepreneurship Life Cycle</b> | <b>Dominant Entrepreneurship Characteristics</b>          |
|--|---|
| Entrepreneurship Intention<br>(Intention/aspiration)   | Achievement Motivation<br>Tolerance to Risk and Ambiguity |

|   |   |
|---|---|
|   | Internal Locus of Control and Personal Efficacy   |
| Business Start-up<br>(Execution)            | <ul style="list-style-type: none"> <li>Social Skills</li> <li>Planning Skills</li> <li>Business Management Skills</li> <li>Innovativeness</li> <li>Tacit Knowledge</li> <li>Willingness to Learn</li> <li>Taking Responsibility</li> <li>Risk Taking</li> <li>Passionate and Hardworking</li> <li>Entrepreneurial Competencies</li> </ul> |
| Business Success<br>(Growth/Sustainability) | <ul style="list-style-type: none"> <li>Leadership Skills</li> <li>Delegation Skills</li> <li>Motivation Skills</li> <li>Ability to Cooperate</li> <li>Willingness to Share</li> <li>Entrepreneurial Competencies</li> </ul>   |

## **Discussions**

From the findings, most entrepreneurial studies are confined to entrepreneurial intention, business start-up and business success and growth (sustainability) whereby the dominant entrepreneurship characteristics are identified. Some of these dominant entrepreneurship characteristics are consistently evidenced in the prominent stages of the entrepreneurship life

cycle and are linked, which call for further investigations on their differences and similarities between the different stages.

In the intention (or pre-entrepreneurship) stage, dominant characteristics such as achievement motivation and need for achievement, high tolerance for risk and ambiguity and internal locus of control were evidenced. An individual who has the achievement motivation and need for achievement appears to have a higher level of intention to venture into business. Entrepreneurship is faced with many uncertainties and unclear situations whereby only individuals with high tolerance for risk and ambiguity will have greater intention to enter into entrepreneurship. In addition, those with internal locus of control such as hard work and commitment are better prepared and more willing to enter into business ventures.

These dominant entrepreneurship characteristics provide a head start for the construction of the conceptual framework in the development of the entrepreneurial index to assess the entrepreneurship characteristics. However, a different set of dominant entrepreneurship characteristics were identified in the early stage of entrepreneurship from start-up to normal operation.

At the start-up (execution) stage where the individual begins his entrepreneurship journey, the dominant entrepreneurship characteristics are somewhat different from the entrepreneurship intention stage. These include social skills, planning skills, business management skills, willingness to learn, willingness to act, taking responsibility, innovativeness, tacit knowledge, risk taking, passionate and hardworking and entrepreneurial competencies. In this stage (operation), the entrepreneur must possess the right social skills to garner sufficient support from family, relatives, friends, funding agencies, suppliers and others who will give him a head start in his new business venture. In starting a business, the aspiring entrepreneur must possess good planning skills in mapping the objectives, strategies and action plans to give a clear direction of the business. The entrepreneur is required to have the right business management skills to ensure the business plan are executed effectively and efficiently. In executing the business plan, the dominant entrepreneurship characteristics are being innovative (creative ways to execute), possess the right tacit knowledge (to produce quality products and services), willingness to learn (learning curve), taking responsibility (to account for his actions), taking risks (when facing ambiguous situations), be passionate and work hard (in whatever he set to perform) and possessing entrepreneur competencies (to ensure that the business flourishes)

The ultimate challenge in entrepreneurship lies with the ability of the entrepreneur to maintain growth to stay sustainable in business. Apparently he/she has several options at this tail end of the entrepreneurship life cycle: reap his harvest (sell) and start a new business venture (serial entrepreneur), maintain his current business and diversify into a new business venture or enter into an IPO (initial public offer) and start to be a corporate entrepreneur (intrapreneur). The dominant entrepreneurship characteristics are reflected in the entrepreneur's leadership skills (to scale new heights), motivation skills (to build human capital), delegation skills (succession planning), ability to cooperate with others (start as intrapreneur), willingness to share (gain by giving). Needless to say, the successful

entrepreneur possess virtually all the entrepreneurship characteristics as mentioned in the earlier stages.

### **Implications**

The dominant entrepreneurship characteristics reflected in the life cycle of entrepreneurship provide the foundation in the construction of the conceptual framework for the development of the entrepreneurial index as an instrument to assess the entrepreneurship characteristics. The findings of this Paper provide a parameter for the selection of entrepreneurs who will be engaged in focus group studies and the setting of questionnaires, to validate the relevancy and significance of the entrepreneurship characteristics. From the focus group studies, weightage on dominant and prominent entrepreneurship characteristics can then be incorporated to develop the entrepreneurial index as an instrument to assess the entrepreneurship characteristics – intention, start-up (execution) and growth (sustainability).

### **Conclusions**

In conclusion, there has been extensive discussions and perspectives of entrepreneurship and entrepreneurship characteristics of entrepreneurship intention, successful business start-up and sustainable growth in the business ventures. The dominant characteristics in prominent stages of the entrepreneurship life cycle provide the main impetus for the construction of the conceptual framework in the development of the entrepreneurial index to assess entrepreneurship characteristics. The stage is set for further investigations through focus group studies among suitable aspiring, budding, practising and retired entrepreneurs, in validating the relevancy and significance of these dominant entrepreneurship characteristics and open views on other characteristics which may form part of the entrepreneurship characteristics framework.

The development of the entrepreneurial index to assess entrepreneurship characteristics will be useful to various stakeholders aspiring for economic growth and business success and sustainability. This Paper leads the way to foster entrepreneurship by carrying out further investigations on personal traits, behaviours, attitudes, activities, practices and other factors, such internal and external environmental factors influencing entrepreneurship.

In the Malaysian context, this Paper sets the stage for rigorous research on the contribution of entrepreneurs as an alternative towards achieving a high income economy. The

entrepreneurial index will guide these entrepreneurs to realise their dreams and help mould Malaysia achieve developed nation status by 2020. The index will serve as a yardstick for existing and potential entrepreneurs to better understand and prepared to face the challenges of their entrepreneurial career paths. It would help them overcome major obstacles in securing government support at national, state and district levels, financial support from the financial institutions and venture capitalists, mentoring from incubator centres for market/product development, research and development, human capital development and the other elements of entrepreneurship. Ultimately, this Index will set the platform for the establishment of entrepreneurship ecosystem in Malaysia to engage in the national key economic areas (NKEAs) identified in the economic transformation programme (ETP) towards achieving a high income economy and developed nation status by 2020.

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## **Notes**

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# **BANKS' CREDIT LENDING AND SMALL AND MEDIUM SCALE ENTERPRISES DEVELOPMENT IN NIGERIA**

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**ABSTRACT:** The study identified the problems facing the development of Small-Scale enterprises; analyzed the effect of banks' credit lending on small and medium scale industry development and examined Government finances of SMEs Development in Nigeria within the period of 1999-2008. Data for the study were obtained through primary and secondary sources. A questionnaire titled "Banks' Credit Lending and SMEs Development Questionnaire (BLSDQ)" was administered on 130 sample SMEs selected within Oyo State. The data collected was analyzed using both descriptive and regression analysis. The results of the study show that there is interdependence between the SMEs profitability and bank loans, a significant relationship exists between profitability and the size of business and there is a positive relationship between profitability and interest rate. Also, the major problems facing the development of SMEs are non-release of the required amount, corruption, high interest rate (lending rate), and poor infrastructural facilities. The study concluded that the level of credits made available by banks for the development of SMEs of Oyo State were not adequate and recommended that government should formulate policies that will compel banks to relax their restrictive regulations and operations which discourage borrowing and offer more credit facilities to SMEs.

## **INTRODUCTION**

What constitutes a small-scale business depends on the level of industrialization and development in a particular country because what could be termed small scale business in the developed nations can be a big or large business in developing countries (CBN, 2005).

In Nigerian context, the definitions as revised by the National Council on Industry (NCI) in 1996 is as follows: Cottage industry – enterprise with total cost (including working capital but excluding cost of land) not more than 1 million, with a labour size of not more than 10 workers; Small-scale industry – enterprise with total cost (inclusive working but excluding cost of land) above 1 million but not exceeding 40 million, with a labour size of between 11 and 35 workers; Medium-scale industry – enterprise with total cost (inclusive working capital but excluding cost of land) above 40 million but not exceeding 150 million, with a labour size of between 36 and 40 workers; and Large-scale industry – enterprise with total cost (inclusive working capital but excluding cost of land) above 150 million and a labour size of over 100 workers. The Small and Medium Industries Equity Investment Scheme's (SMIEIS) definition for SMEs is any enterprise with a maximum asset base of 200 million, excluding land and working capital; and the number of staff employed by the enterprise not less than 10 and not more than 300, subject to review by the Banker's Committee from time to time.

For both developing and developed countries, Small and Medium Scale firms play important roles in the process of industrialization and sustainable economic growth. Apart from increased per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth. However, the seminal role played by SMEs notwithstanding its development is

everywhere constrained by inadequate funding and poor management. The unfavourable macroeconomic environment has also been identified as one of the major constraint which most times encourage financial institutions to be risk averse in funding Small and Medium scale businesses. The reluctance on the part of financial institution to fund SMEs can be explained by the insufficient capital base of banks and information asymmetry that often exist between SMEs and lending institutions.

The performance of Small and Medium Enterprise (SMEs) is of interest to all countries. The enterprise have a big potential to bring about social and economic development, by contributing significantly in employment generation, income generation and catalyzing development in both rural and urban areas (Hallberg, 2000; Williams, 2006 ) In many of the newly industrialized nations, more than 98% of the SMEs account for the bulk of the labour force (Sanusi, 2003 ). It is estimated that SMEs employed 22% of the adult population in developing countries (Kayanula and Quartey, 2000), and provided more employment per unit of capital investment than large enterprises (Inang and Ukpong, 1992). In Nigeria, the SMEs accounted for about 70% of industrial employment (Adebusuyi, 1997) and well over 50% of the Gross Domestic Product (Odeyemi, 2003). Thus, being able to find out the factors which improve the profitability of SMEs so that they are successful and grow into conglomerates is of considerable concern to the entrepreneurs and the Nigerian Government has set up various programmes and institutions aimed at developing the SMEs sector.

However, SMEs are vulnerable and very few manage to survive due to the problems of finance, low sales, low profitability, high costs of doing business and labour market barriers.

In the light of the above and in the realization of the fact that industrialization is required for rapid economic development, government in Nigeria formulated many policies and sometimes reversing earlier ones to ease industrialization. To solve the financial problems, particularly of Small and Medium Enterprises (SMEs), a number of specialized financial institutions like the Nigeria Industrial Development Bank (NIDB), the Nigeria Bank for Commerce and Industry (NBCI) and the newly introduced microfinance Banks have been established besides the formulation of many favourable credit policies.

It is pertinent to state that Nigeria like many other less developed Economies (LDEs) has an economy that is characterized by many micro firms. Micro, small and medium enterprises in Nigeria accounted for 95% of non oil productive activities outside agriculture (Jamodu, 2001). Thus the small and medium Enterprises are accorded high priority and resources commitments by government.

Banks have the capabilities to pull financial resources together to meet the credit needs of SMEs. Yet there has always been a gap between the supply capabilities of banks and the demanding needs of the SMEs. Specifically, in Nigeria, there is a huge stock of both equity and loanable funds in the commercial banking sector which the SMEs are not benefiting from. For example, as at the end of the first quarter of 2007, out of N38.2 billion set aside under the scheme by the banks, only 18.1% or 47.3% had been assessed by the SMEs (CBN, 2007). Similarly, the financial guidelines every year stipulate that banks must dedicate a minimum proportion of their loan portfolio to the SMEs. However, since the 1970s the banks have not met this requirement. On the demand side, the SMEs have been reluctant to seek bank loans despite the various loan schemes being offered by the banks and the government, because of the fear of the business being taken away in the case of any problem to meet the agreed terms. From the foregoing, the majority of existing SMEs in Nigeria are now operating below their installed capacities due to financial constraints, inadequate government supports, dysfunctional public services (telecommunication, power and water supply), and lack of public acceptability of locally produced goods.

## **OBJECTIVES**

The specific objectives of the study are stated as follows:

- (i) To identify the problems facing the development of Small-Scale enterprises in Nigeria;
- (ii) To analyze the effect of banks' credit lending on small and medium scale industry development; and
- (iii) To examine bank credit lending and small- scale industry development in Nigeria from 1999-2008.

## **II. LITERATURE REVIEW**

The general characteristics of less developed regions indicate the nature of the needs and these include; unemployed and employed labour, a small or negative rate of real per capita income, grossly unequal income distribution, low investment rates and scarce capital and political and economic instability (Lebell et al, 1974). This gives a vivid picture of Nigeria's industrial landscape which like any less developed country, is littered with many micro, small and medium enterprises. They are expected to provide the driving force for the industrialization and overall development of the Nigeria economy. This explains the increasing policy attention accorded the SMEs in addition to the fact that they play significant roles in meeting some basic economic and industrial developmental objectives.

Few among the significant roles played by the SMEs are as follows;

They provide the training ground for the development of indigenous entrepreneurs (kilby, 1988). (Casson 1992) opines that by acting as a seedbed or nursery, usually for the propagation and diffusion of innovative ideas for far reaching dimensions. They are more flexible and can easily adapt to changes to external environment.

In both developed and developing countries, the traditional sector has served and continues to serve as the springboard for launching into a vibrant modern sector. Thus a fledging SMEs sector can be a means of achieving a smooth transition from the traditional to the modern industrial sector (United Nations, 1994).

SMEs due to their labour intensively and usage of low-level technology are able to garner and use the widely available local labour supply. This is consistent with the nation's income distribution objectives (Steel and Takiti, 1993). Also, SMEs create more jobs per unit of energy consumed than large scale ones (Vankataraman, 1994).

Fourth, SMEs assist in the dispersal of economic activities through encouraging the development and modernization of these activities outside the major metropolitan areas. Thus, they are able to stem the tide of rural-urban drift. Another economic role of the SMEs is their ability to mobilize financial resources, which would otherwise be idle or untapped by the formal financial sector (Central Bank of Nigeria, 1985).

Fifth, SMEs facilitate the conservation of foreign exchange and the development of the scarce resources of management in developing countries. This is mainly due to their size or scale of operations and unsophisticated management structure. A high percentage of the profit of SMEs, most of which are locally owned is known to be ploughed back to ensure a higher rate of future growth.

Also, Kamaluddin (1982) opined that the SMEs provide the desired linkage effects, especially agro-industrial linkages.

It is pertinent to highlight the contributions of SMEs to the economy of some countries and also, that of Nigeria. A study carried out by the Small Business Research Unit in the United Kingdom between the periods 1982-1988, showed that SMEs created between 8000,000 and 1,000,000 new jobs.

In Japan, the industrial strength of the nation is premised on SMEs. They employ more than 82 percent of the total labor force and account for more than 50 percent of the total manufacturing value added.

In Nigeria, Kasimu (1998) opined that the SMEs have through NIDB assisted projects created more than 300,000 jobs and through the Nigeria Agricultural and Co-operative Bank (NACB), created more than 700,000 jobs.

The benefits of SMEs are well documented in the literature and would only be summarized here to put into proper perspective the issues involved. They provide an effective means of stimulating indigenous entrepreneurship, create greater employment opportunities per unit of capital investment and aid the development of local technology. Through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. By producing intermediate products for use in large-scale enterprises, they contribute to the strengthening of industrial inter-linkages. Small enterprises are known to adapt with greater ease under difficult and changing circumstances because their typically low capital intensity allow products lines and inputs to be changed at relatively low cost. They also retain a competitive advantage over large enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets. SMEs also serve as veritable means of mobilization and utilization of domestic savings as well as increased efficiency through cost reduction and greater flexibility. They have been very prominent in the manufacture of bakery product, leather manufactures, furniture, textile and products required for the construction industry. The SMEs in Nigeria have expanded following the adoption of the structural adjustment Programme (SAP) to fill the supply gap in industrial consumer goods created by the difficulties faced by large scale firms which have not easily adapted to the policy changes of SAP.

Berger et al. (2001) suggest that the larger, more organizationally complex institutions that are created from Merger and Acquisition (M&A), may be less predisposed than smaller, less complex institutions to supply credit to small, less informed borrowers. These borrowers who are most dependent on banks for credit and whom the bank borrowers relationship is important do not get credit facilities. Larger institutions according to them may be less predisposed to extend loans that demand intimate knowledge of the small business, its owners, and its local market because of diseconomies associated with producing such loans along with other financial service products. These diseconomies might arise because lending to small, less informed borrowers and lending to large, informational transparent borrowers may be distinctly different in their activities that require the use of different technologies and entirely different credit culture. The policies and procedures associated with screening and monitoring small informational opaque borrowers and transmitting the relevant information within the banking institutions may be very different from those associated with providing transaction-driven loans to large, informational transparent borrowers. In addition to a financial institution's size, its organizational complexity, may also affect its small business lending.

### **Government Finances of SMEs in Oyo Town**

The small and medium enterprises in Nigeria are expected to raise fund through two main sources: Equity and Debt. The sources of equity (sometimes called internal funds) include owners' savings and ploughed back profits. Oftentimes, firms make use of debt (external funds) for expansion. These funds can be obtained from informal sources (that is friends/relatives, credit associations, co-operative societies) and also from formal sources (that is banks and governmental agencies). However, because the level of saving is low,

derivable from poor income level, business owners cannot save enough or borrow enough from the informal sources.

Similarly, accessibility to formal financial system, especially by SMEs is very limited contrary to expectation. One would expect that there would be improvement in lending to the SMEs since the funds are relatively available. On the supply side, banks are not expanding SMEs loans due to imperfect information, high transaction cost of dealing with small loans, geographical dispersion of the SMEs and large number of borrowers and low returns from investment. On the demand side, SMEs are reluctant to obtain loans because of the collateral security, high interest rate and untimely delivery of credits.

This problem of financial has persisted for a long time, despite the existence of various economic reform programmes by the government aimed at developing the SME sector. The government has introduced, since the early 1970, various credit schemes. The list of past and present programmes and institutions established and directed at SMEs development by government includes: Mandatory Credit Guarantee in respect of SMEs (1970); Small Scale Industries Credit Guarantee Scheme (1971); Agricultural Credit Guarantee Scheme (1973); Nigeria Agricultural and Cooperative Bank (1973); Nigerian Bank for Commerce and Industry (1973); Rural Banking Scheme (1977); The World Bank Assisted SME I (1985) AND The World Bank Assisted SME II (1990); Second –Tier Security Market (1985); Peoples Bank (1989); National Economic Reconstruction Fund (1992); Small and Medium Scale Enterprises Loan Scheme (1992); Family Economic Advancement Programme (1997); African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988; Bank of Industry (BOI) – being merger of NIDB, NBCI and NERFUND in 2001; Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) –being merger of NACB, People Bank and Family Economic Empowerment Programme (FEAP) in 2002; and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.

As Hallberg (2000) observes, government assistance strategies in both developed and developing countries often try to achieve a combination of equity objectives (alleviating poverty and addressing social, ethnic and gender inequalities ) and efficiency objectives (raising the productivity and profitability of firms).

However, Ojo (2003) argues, all these SME assistance programmes have failed to promote the development of SMEs. This was echoed by Tumkella (2003) who observes that all these programmes could not evaluate their expected desires due largely to abuses, poor project evaluation and monitoring as well as moral hazards involved in using public funds for the purpose of promoting private sector enterprises.

### **III. RESEARCH METHODOLOGY**

The study was conducted in Oyo state of Nigeria, being a typical state in terms of the characteristics of SMEs in Nigeria, availability of physical and financial infrastructures as well as economic resources. First, listing of firms from the Oyo State Board of Internal Revenue tax reports was used to identify the names and addresses of the SMEs. Second, the names and addresses of SMEs in Oyo town were obtained from the list at the Oyo State Ministry of Commerce and Industry, Ibadan. The SMEs that were selected for the sample meet the Small and Medium Industries Equity Investment Scheme's (SMIEIS) definition for SMEs of having 10-300 workers and must have been in existence for ten years to get meaningful data. A questionnaire titled "Banks' Credit Lending and SMEs Development Questionnaire (BLSAQ)" was administered on 130 sample SMEs selected within Oyo State. Out of 130 questionnaires administered, only 120 were retrieved. Also, secondary data was employed and were gathered from annual reports and statement of account of the bank sampled for this study, as well as the statistical bulletin of the Central Bank of Nigeria (1999-2008). The data for the dependent and independent variables used in the regression analysis,

except that of the interest rate, were obtained from the primary data through field survey. Data from the interest rate was collected from statistical bulletin of the Central Bank of Nigeria. The data collected was analyzed using both descriptive and regression analysis.

### 3.3 Model Specification

The study employed a fixed-effects model that involved specifying regression equation which incorporates profit or size of business as dependent variable, and loans, age of business, size of business and interest as independent variables for the 130 firms randomly selected. The use of profitability to measure performance is in line with profit or utility maximization assumptions that are the cornerstones of many economic theories (Rantamaki-Lahtinen et al, 2007). As cited in Rantamaki- Lahtinen et al, (2007), Penrose (1995) observes that managers try to maximize long-run profits, while Barney and Arikan (2005) regard firm as a profit maximizing entity. The regression model is specified as:

$$\Pi_{it} = a_0 + a_1\text{LOANS}_{it} + a_2\text{SALES}_{it} + a_3\text{BIZAGE}_{it} + a_4\text{BUSIZE}_{it} + a_5\text{INTEREST}_{it} + e_{it} \text{-----} (1)$$

$$a_1 > 0; a_2 > 0; a_3 > 0; a_4 > 0; a_5 < 0$$

Where,

$\Pi$  = profit before tax for firms

LOANS = amount of loan obtained by firms

SALES = level of sales by the firms

BIZAGE = age of business

BUSIZE = size of firm (measure by the number of employees) at time t

INTEREST = interest rate at time t

$e_{it}$  = the error component that varies over both individual firms and time.

$a_1, a_2, \dots, a_5$  are parameters to be estimated

Thus, theoretically, our a priori expectations concerning the coefficients of the variables are that LOANS, SALES, BISAGE AND BUSIZE carry positive sign, while the coefficient of interest variable, INTEREST, is expected to carry a negative sign.

## IV. FINDINGS AND DISCUSSION

This section presents the results of the analysis conducted on the objectives raised for the study.

### Problems facing the Development of Small and Medium Scale Enterprises in Nigeria

The below table shows the major problems facing the development of Small and Medium Scale Enterprises as indicated by the 120 respondents for the purpose of the study. A summary of the result is presented in table 8.

**Table 1: Problems Militating Against the Development of SMEs**

| Problems                               | Frequency |    | Percentage (%) |      |
|--|-----------|----|----------------|------|
|  | Yes       | No | Yes            | No   |
| Insufficient funds                     | 114       | 6  | 95.0           | 5.0  |
| Lack of credit from the banking sector | 112       | 8  | 93.3           | 6.7  |
| Government policy                      | 102       | 18 | 85.0           | 15.0 |
| High cost of raw materials             | 116       | 4  | 96.7           | 3.3  |
| Poor marketing strategies              | 113       | 7  | 94.2           | 5.8  |

|  |     |    |      |      |
|--|-----|----|------|------|
| High lending rate                      | 98  | 22 | 81.7 | 18.3 |
| Insufficient\scarcity of raw materials | 101 | 19 | 84.2 | 15.8 |
| Poor infrastructural facilities        | 108 | 12 | 90.0 | 10.0 |
| Lack of technical expertise            | 99  | 21 | 82.5 | 17.5 |

**Source: Field Survey, 2011**

From table 1, majority of the respondents (95.0%) indicated that one of the problems militating against proper development of Small and Medium Scale Enterprises (SMEs) in Oyo town is insufficient funds. They find it difficult to obtain the required loans from the banks due to insufficient collateral security presented by the business owners.

Another major problem is lack of credits from the banking sector (93.3%) and unfavourable government policies (85.0%) such as high tariff, restriction on where to operate and poor infrastructural development. Other major problems indicated by majority of the respondents include lack of technical expertise (82.5%), insufficient\scarcity of needed raw materials (90.0%), high lending rate (84.2%), poor marketing strategies (81.7%), poor infrastructural facilities (96.7%) and high cost of raw materials (94.2%).

### **Effect of Banks' Credit Lending on Small and Medium Enterprises (SMEs) Development**

This section presents the result of the OLS regression analysis conducted to determine the impact of banks' credit lending to the growth of SMEs.

**Table 2: SMEs Dependent Variable-Profit**

| <b>Independent Variables</b> | <b>Coefficients</b> | <b>t-statistic</b> | <b>Prob-value</b> |
|------------------------------|---------------------|--------------------|-------------------|
| Loans                        | 0.0000320           | 2.810              | 0.005*            |
| Sales                        | 0.0000210           | 1.610              | 0.109             |
| Biz Age                      | -0.153177           | -0.741             | 0.459             |
| Bus. Size                    | 0.0438390           | 4.770              | 0.000*            |
| Interest                     | 0.771236            | 5.070              | 0.000*            |
| R <sup>2</sup>               | 0.768               |                    |                   |
| Adj. R <sup>2</sup>          | 0.721               |                    |                   |
| Chi square                   | 9576                |                    |                   |
| RSS                          | 268.89031481        |                    |                   |

**Source: Author's Computations from Study Sample Data**

\*indicates significance at 5%

The econometric analysis was used to test the hypothesis of the relationship between profitability of the firms and each of the performance indicators of loans, sales, age of business, size of business and interest rate (table 2). The coefficient of loans amount was positive and statistically significant and confirms our a priori expectations of economic theory. This implies that bank loan is positively related to firm's profitability and that profits of SMEs tend to increase with increasing amount of loans.

This result was consistent with simple economic theory which suggests that access to credit should lead to higher profits and further confirms the works of McMahon et al, (1993) that the financing decision impacts upon the profitability of an enterprise, and as stated by Keasey and Watson (1991), the use of banks' financing by SMEs is associated with higher business performance.

The coefficient of sales also carries a positive sign, which conform to our a priori expectation of economic theory that profits usually lead to increase in sales. For profit maximizing firms, a strategy to maintain a high level of profitability requires that the firms must produce quality products which can easily be sold to generate more revenues, especially through effective and efficient marketing strategies. To achieve full potential of sales, the product life cycle must be considered and the entrepreneurs must maximize the profitability during the growth stage.

The coefficient of the business age (BUZAGE) carries a negative sign, to contradict our a priori expectation. This indicates that the older the SMEs are, the less their profitability. Although, this result is consistent with the work of Almus and Nerlinger (1999), that found an inverse relationship between age and growth rate, the study by Stanger (2000) did not support such conclusion. Rather, he argued that the relationship should be positive, since older businesses are more likely to have attained diminishing costs of production over some range of sales and hence be able to operate more economically and efficiently than recently established ones. With regards to the Nigeria environment, the results of the inverse relationship between profitability and age of business may not be that unexpected, because newer firms are involved in a remarkable pace of innovation and technological change that demands a continuous research and their dynamic efforts may lead to higher efficiency compare with older firms. Similarly older firms find it difficult to adjust to hostile business environments like changing interest and exchange rates and high labour cost, all of which were not envisaged when they started, whereas, newer businesses are more familiar with their current operating environments and , therefore, build their businesses on such premises.

**Table 3: Ratio of Loans of SMEs to Commercial Banks' Total Credit.**

| <b>Year</b> | <b>Commercial Banks' Loans to SMEs (N' Million)</b> | <b>Commercial Banks' Total Credit (N' Million)</b> | <b>Commercial Banks' Loans to SMEs as % of Total Credit</b> | <b>CBN Prescribed Minimum Lending %</b> |
|-------------|---|--|---|---|
| 1999        | 46,824.0  | 353,081.1  | 13.3  | 20.0                                    |
| 2000        | 44,542.3  | 508,302  | 8.7   | 20.0                                    |
| 2001        | 52,428.4  | 796,164.8  | 6.6   | 20.0                                    |
| 2002        | 82,368.4  | 954,628.8  | 8.6   | 20.0                                    |
| 2003        | 90,176.5  | 1,210,033.1  | 7.5   | n.a                                     |
| 2004        | 54,981.2  | 1,519,242.7  | 3.6   | n.a                                     |
| 2005        | 50,672.6  | 1,899,346.4  | 2.7   | n.a                                     |
| 2006        | 25,713.7  | 2,524,297.9  | 1.0   | n.a                                     |
| 2007        | 41,100.4  | 4,813,488.8  | 0.9   | n.a                                     |
| 2008        | 13,383.9  | 7,725,817.9  | 0.2   | n.a                                     |

**Source: CBN Statistical Bulletin volume 19 December 2008, page 48**

The Small and Medium Industries Equity Investment Scheme (SMIEIS), required all commercial banks to invest 10% of their profit before tax in Small and Medium Scale Enterprises of their choice. This is aimed at improving the flow of funds to re-vitalize the real sector of the economy. Although, commercial banking system aggregates credit to the domestic economy has grown phenomenally from N353, 081.0 million to N7,725,817.9 million in 1999 and 2008 respectively, the ratio of loans of small –scale enterprises to

commercial banks' total credit to the economy has continued to decrease over the years (CBN, 2008).

## **IMPLICATIONS**

Inadequate financial resources, as well as desire to operate with limited openness on the part of proprietors lead many SMEs to employ semi-skilled or unskilled labour. The problem of inadequate provision of essential services, such as telecommunications, access roads, electricity and water supply, constitutes one of the greatest constraints to SME development and as such, most SMEs resort to the private provisioning of these at huge costs. These combined problems invariably jeopardize productivity, restrain expansion and hinder competitiveness and as a result, sustainability of the vision of expanding the activities of the SMEs is at stake.

From the findings on the second objective, the coefficient of size of business (BUSIZE), measured by the number of employees, conforms to our a priori expectation of positive sign and the variable is statistically significant. This means that as the size of the firm becomes bigger, more profits are expected to be realized. This is because large firms find it easier to borrow money from banks for expansion and hence, be able to enjoy the economies of scale from bulk purchasing, and increase the quality and quantity of factors of production such as capital, equipment and machinery and employ more workers which will ultimately increase profitability.

Surprisingly, the interest variable, although statistically significant, had a positive sign contrary to our expectation. This implies that the profits of SMEs tend to increase with increasing rate of interest. This counterintuitive result could be accepted in Nigeria's case, because, the share of interest charges on total cost of operations of most Nigerian firm is low. Moreover, often times, most Nigerian firms pass increased interest rates to the final consumers in form of proportionally higher prices, thus even getting higher profit level.

Considering the ratio of Loans of SMEs to Commercial Banks' Total Credit, the implication of the trend of lending to the SMEs is that banks are ready to give a sizeable proportion of credits to SMEs, only if they are forced to do so. For instance, Table 3 shows banks' credits to SMEs declined progressively from 13.3% in 1999 to 0.2% in 2008.

## **V. CONCLUSION AND RECOMMENDATIONS**

The results of the study demonstrate that there is interdependence between the Small and Medium Scale Enterprises (SMEs) profitability and bank loans, a significant relationship between profitability and size of business and a positive relationship between profitability and interest rate. For high profitability, more loans and growth in size of business remain important. Also, the major problems facing the development of SMEs are non-release of the required amount, corruption, high interest rate (lending rate), and poor infrastructural facilities.

There is no gain-saying that the small and medium enterprises are a vital force in the industrialization process of developing and emerging economies. Certainly, government all over the world will continue to accord the sector the high priority it deserves.

In order to bring about sustainable development in an environment that is characterized by stiff competition, especially against the backdrop of trade globalizations, concerted, coordinated and sustained efforts are required from all operators in the economy, i.e. the government and its agencies or parastatals, Non- Governmental Organizations, relevant financial institutions and international bodies. The following recommendations are necessary:

- (i) Government should formulate policies that will compel commercial banks to relax their restrictive regulations and operations which discourage borrowing and offer more credit facilities for SMEs.

- (ii) The Government should re-introduce and enforce the mandatory minimum credit allocation by banks to SMEs in the Annual Monetary Policy Circular and Guidelines.
- (iii) Besides, the government should empower the SMEs to access and get credits from commercial banks through formal and informal entrepreneurship education for SMEs to develop their managerial capabilities, accounting skills and overall, be more credit worthy. Certificates of attendance obtained from such trainings should be made a prerequisite to obtain loans.
- (iv) Government should develop support mechanisms to guarantee loans from informal sector and provide insurance against risk.
- (v) Banks should develop more market instruments aimed at helping the informal financial sector evolve into the visible agents of SMEs finance and increase their depth of influence in the community.
- (vi) Government support is needed in the development of small- scale enterprises. This will be in the form of providing opportunities and facilities, at subsidized costs, for upgrading the technical quality and management expertise available to operators of small-scale businesses.

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# **CONSTRUCTING A MODEL OF SOURCING PROJECT SUCCESS TOWARDS ETP: THE CASE OF SUPPLIER-MANUFACTURER IN MALAYSIA**

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## **Abstract**

The focus of this research is on the strategic relationship of the effect of environmental dynamism on the outsourcing success, and the performance of the relationship. There are two major dimensions in ROE, i.e. structural and process dimension, which separates the long-term relationship between supplier and manufacturer. In this study, there are three dimensions in environmental dynamism: (1) customer demand, (2) level of competition, and (3) technology changes. Data was collected by postal survey from electrical and electronic manufacturing industries in Malaysia. The findings from the data collected by the hand delivery survey showed support for the hypotheses of the study. In general, the results of multiple regression indicated support for strategy relationships factor and outsourcing (first hypotheses). Finally, hierarchical regression analysis was carried out to determine the moderating effect of environmental dynamism on outsourcing success (second hypotheses). The result of the study indicated full support of these moderating effects.

**Keywords:** Relational-oriented exchange, Environmental dynamism, outsourcing performance

## **1.0 Introduction**

Malaysia aims to become a more competitive developed country and achieve high-income economy by the year of 2020. Therefore, in order to achieve the vision, the nation has been carrying out an economic plan known as the Economic Transformation Programme (ETP), since October 2010. The objective of ETP is to increase the Gross Domestic Product

(GDP) of Malaysia in which there will be a significant increase of employment opportunities where employees could enjoy higher paid jobs and strengthen their skills base.

According to Productivity Report 2010/2011, one of the main contributors to the nation's GDP is manufacturing industry (MPC, 2010). In the meantime, electrical and electronics (E&E) industry is an important engine of the economy growth as it is the largest contributor to the manufacturing sector. According to MIDA (2012), E&E significantly contributes to the manufacturing output (31%), exports (48.7%) as well as employment (33.7%) in the country. However, there could be factors affecting the performance in the manufacturing process. One of the potential factors could be the supply chain as this is where the factory obtains the raw materials. Consequently, there might be positive and negative relationships underlying supplier and manufacturer relationship and could affect the overall outcome.

The International Trade and Industry Ministry of Malaysia, Datuk Seri Mustapa Mohamed claimed that the country should improve and enhance national competitiveness by engaging and communicating actively within local and international levels (Bernama, 2011). Therefore, appropriate and successful local or international outsourcing is the determining key for companies to stand out from the competition. They generate greater value and enhance competitive edge while they focus solely on their core competencies. This in turn saves them resources while they rely heavily on the outsourcing partners for operations and processes that are out of their area of expertise (Khong, 2005b). Research as well indicates that the major early reason for companies to start outsourcing is cost savings (Murray & Kotabe, 1999; Walker & Weber, 1987). This synergy is beneficial to both parties in terms of monetary and non-monetary in the short and long run (Khong, 2005b). However, this is heavily dependent on the capability of the partner. It is imperative that skilful, credible and reliable partner is chosen (Elmuti, 2003). Consequently, successful outsourcing implementation strategy will help enhance competitiveness and financial performance, reduce cost, increase profitability, productivity, capacity, and efficiency of an organization (Elmuti, 2003).

There are two drives motivating organizations to specialize in limited key areas and practice outsourcing: a) Greater efficiencies, b) Cost reductions (McIvor, 2010). Nowadays, small medium companies outsource almost everything from administrative services, knowledge-intensive services, cleaning and catering services to information technology (Perunovic, Christoffersen, & Mefford, 2012). Companies which outsource have enabled them to improve their overall business performance when they do not have to take care of the non-core business operations. Furthermore, through outsourcing, some companies are able to access to the new markets, obtain more resources and more advanced technology and skills which further enhance their competitive advantage in the competitive and rapidly expanded market. On the other hand, resources are valuable assets to an organization to counter threats and exploit opportunities. The uniqueness of certain resources is the competitive advantage that helps organization stand out from the competition and scarce resources should be held only in the organization. Therefore, an organization should allocate the resources in implementing outsourcing strategy instead. According to the resource-based theory, "*every single company is a unique bundle of assets and resources that if employed in distinctive ways can create competitive advantage*" (Barney, 1991).

## **2.0 Objectives**

The focus of this research is on the strategic relationship of the effect of environmental dynamism on the outsourcing success, and the performance of the relationship. A

questionnaire survey was used to identify how suppliers deal with manufacturers. Data was collected by a postal survey to electrical & electronics sub-sector (E&E). Hence, this study identifies three main goals:

1. To investigate the relationship between supplier-manufacturer relationship with the sourcing project success in terms of financial performance.
2. To determine the relationship between supplier-manufacturer relationship with the sourcing project success in terms of strategic performance.
3. To examine the impact of environmental dynamism as a moderator on the relationship between supplier-manufacturer relationship on outsourcing success.

### **3.0 Literature Review**

#### **3.1 Relational-oriented exchange and outsourcing success**

From the previous studies, firm performance is always affected by dynamic capabilities which refer to the firm's abilities to integrate, construct, and reorganize their competencies and resources (Teece, Pisano, & Shuen, 1997). This construct has been used to describe how firms successfully survive in the rapidly changing global environments. For example, Zott (2003) illustrates the dynamic capabilities into three capacities: (a) to sustain competitiveness through combining, enhancing, protecting, and reconfiguring the firm's assets when necessary, (b) to overcome threats and shape opportunities, and (c) to grab opportunities.

According to Teece (2007), dynamic capabilities enable firms to improve long term financial performance by creating, deploying, and protecting their assets. Typically, the firms which have dynamic capabilities to manage the firm relationship always have higher market value compared to firms lacking such capability. It is important to make an analytical investment in structuring the capacity to manage consistent long-run supplier-manufacturer relationship. In other words, firms that invest in the growth of relational-oriented exchange will obtain the cost reduction of coordination and integration, and enhancement of the synergistic payback accessible through strategic outsourcing.

Outsourcing enables the company to investigate the areas of production which are needed to sustain the value-added chain and on which products and activities the company should focus on to achieve ideal performance (Dekkers, 2000). According to Gilley and Rasheed (2000), outsourcing is expressed as "the substitution of activities performed in house by acquiring them externally, although the firm has the necessary management and financial capabilities to develop them internally. It is also an abstention from performing activities in house." Meaning to say, outsourcing is a strategy that involves long-term contract between two parties to attain a win-win situation. Several researchers have conducted studies on the supplier-manufacturer relationships in outsourcing (e.g. Goffin, Lemke, & Szwejcowski, 2006; Tangpong, Michalisin, & Melcher, 2008). Hence, relational-oriented exchange has become influential and major factor to ensure efficient co-ordination of these activities.

From the previous empirical research, the evidence of positive relationship between outsourcing and the financial performance of firms (Friedrich & Gellrich, 2004) had been indicated. Friedrich and Gellrich (2004) implied that the organizational performance is mainly evaluated by financial element. Through outsourcing, firms are enabled to increase focus on their core activities (Quinn, 1999), decrease production costs as particular suppliers are used (Kotabe, 1998), and increase the firm's strategic technological capabilities. These help to lower fixed costs and break-even point of a firm reducing investment in

manufacturing capability. Hence, outsourcing management may become a supportive model of enhancing a firm's financial performance. The above arguments lead to:

**Hypothesis 1a:** Relational-oriented exchange has a significant positive impact on outsourcing success in terms of financial performance.

Outsourcing not only brings the improvement in terms of profitability but it also enhances the productivity of firms. There are some empirical researches that show a positive relationship between the scale of outsourcing and productivity growth (Elmuti, 2003; Jiang & Qureshi, 2006). Quinn (1992) defined outsourcing as “virtually all staff and value chain activities are activities that an outside entity, by concentrating specialists and technologies in the area, can perform better than all but a few companies for whom that activity is only one of many”. According to Abraham and Taylor (1996), firms “contract out” services in order to enhance production cycles and promote to specialization.

Outsourcing tends to ensure accessibility of greater quality goods and services in the future by creating competition among outside suppliers (Kotabe & Murray, 1990) despite the fact that, outsourcing has its own risk (Quinn, 1992). An outsourcer has the chances to gain advantages of evolving technology know-how exclusive of investing any capital in that technology. Therefore, an outsourcer has the choice of suppliers when market conditions demand. In sum, relational-oriented exchange is expected to affect the likelihood of manufacturer's direct pursuit of strategic outsourcing. The above arguments lead to:

**Hypothesis 1b:** Relational-oriented exchange has a significant positive impact on outsourcing success in terms of strategic performance.

### **3.2 Environmental dynamism and relational-oriented exchange**

Previous research study indicates that environmental dynamism affects the degree of closeness (or relational-oriented exchange) that exists in the supplier-manufacturer relationship (Joshi & Campbell, 2003). Business operating in environmental dynamisms characterized by high level of competition within industry, variable customer demand, and rapid technology changes, must adopt the appropriate level of relational-oriented exchange. Environmental dynamism may enhance and increase the effect of outsourcing (Gilley & Rasheed, 2000).

Resource-based theory (RBT) is important to a company, as this theory is influential to business strategy decision particularly in outsourcing aspect (McIvor, 2010). He claimed that the unique capability of a firm is essential to create, maintain, and improve its competitive advantage. Exchange partners need to modify and enhance flexibility and behavioral confidence of relational-oriented exchange as environmental uncertainty increases. According to Joongsan and Rhee (2008), technology uncertainties act as a moderator in the relationship between supplier capabilities and manufacturer-supplier collaborations in Korean automotive industry from Asian perspectives. Thus, this supports that the benefits of outsourcing increase with the increasing environmental dynamism.

**Customer demand:** D'Aveni and Ravenscraft (1994) claimed that when the industry demand varies, without implementing outsourcing strategy, the particular firm has to bear huge amount of expenses in terms of administrative, coordination and information processing cost. Therefore, in this event, outsourcing is recommended, as the risk of declining demand would be shifted to the supplier firms. In addition to that, there is potential moderating effect of environmental dynamism and strategy implemented by firm on the relationship of outsourcing and performance (Gilley & Rasheed, 2000).

Volume unpredictability is defined as the failure to forecast accurately the volume requirements or customer demand in the relationship (Walker & Weber, 1984) which contributes to the instability of the downstream market and the manufacturer's share of this market. Therefore, an essential characteristic of collaboration in the face unanticipated change is the required step to minimize taking short-term advantage of the situation to one party's unilateral benefit. It is easier to implement when the firm is more assured that both expectations of continuity offer the capacity to reciprocate forbearance and to react against opportunism. The above arguments lead to:

**Hypothesis 2a:** Customer demand has a significant positive impact on the relationship between relational-oriented exchange and outsourcing success.

**Technology changes:** The emergence of technology changes may lead firms to decrease the usage of firm-specific resources (Harrigan, 1985, 1986) and cut down their internalization process in the long-run since they are allowed to partly transfer the risk of task variability to the intermediate markets with strategic outsourcing. With the assessment of task requirements across various customers, specialized firms in these markets may be better able to achieve cost efficiencies that are challenging to focal firms. Teece (1980) states that internal economies of specialization deteriorate as technological uncertainty increases in relation to the external economies of specialized firms. During periods of high environmental dynamism, managers may have the flexibility to change suppliers as technological advances warrant by increasing their reliance on manufacturing outsourcing.

Strategic outsourcing offers more conventional and organized patterns of exchange within and between firms. It may also act as a coping strategy helping to deal with risk by providing scale economies during periods of technological changes. The above arguments lead to:

**Hypothesis 2b:** Technology changes have a significant positive impact on relationship between relational-oriented exchange and outsourcing success.

**Level of competition:** Kohli and Jaworski (1990) state that the level of competition arises from rapid changes in the composition of market share as the results of fast evolving customer demands and preferences. In markets with great level of competition, relationship orientation is more likely to be associated with positive outsourcing performance (Eisenhardt & Martin, 2000). The above arguments lead to:

**Hypothesis 2c:** Level of competition has a significant positive impact on relationship between relational-oriented exchange and outsourcing success.

#### **4.0 Research Methodology**

Postal survey is chosen to conduct the research study due to some reasons. This method is less costly compared to the other methods. Based on previous research study in Malaysia, postal survey is known as one of the most common methods used. Therefore, the target respondents are expected to express their perspectives in the survey successfully without the guidance of researcher. Besides that, from the theoretical aspect, it is possible to gather information data from a great number of target respondents from different locations in Malaysia as it is more assimilated and practicable to manage compared to other methods which are labor intensive and costly. Regarding to previous researchers (Boon-itt &

Himangshu, 2006; Rajagopal, 2006; Thi, 2006), there are high non-response rate with the postal survey. This brings effect to the quality and quantity of the data obtained from the sample. Since this effect cannot be eliminated exclusively, therefore a risk mitigation plan is needed. The purpose is to develop a well designed survey questions layout, keep it attractive, stress on confidentiality, explain the intention of survey in the cover letter and give attention for non-response by estimating non-response bias through sampling non-response from the completed sample. The late respondents were followed up by resending reminders through postal survey again or by e-mail contacts.

#### **4.1 Sampling design and Data collection**

According to MIDA (2012), E&E significantly contributes to the manufacturing output (31%), exports (48.7%) as well as employment (33.7%) in the country. The study covers the Malaysian electrical and electronic manufacturers listed on the FMM (2011) directory where the respondents targeted are from purchasing, planning, logistics, materials, corporate executive, and operation or production management level of the selected companies to provide information. They are expected to have adequate knowledge on the operation and management of outsourcing in their organization. The target companies which manufacture a range of electrical and electronic devices, equipment or apparatus were selected based from 12<sup>th</sup> International Standard Industrial Classifications.

The Directory of Federation of Malaysia Manufacturers has been commonly used by various researchers as a database to select population and sampling frame (Abdul-Halim & Che-Ha, 2010; Abdul-Halim, Che-Ha, & Geare, 2009; Abdullah, Che-Ros, & Kumar, 2007; Khong, 2005a). In this study, there is a total of 865 electrical and electronic companies that are selected as the target respondents as they meet the selection criteria which are suggested by Ying (2006). The criteria stated that one should only consider companies that have more than 100 employees in outsourcing management studies since they are large enough organizations to participate actively in outsourcing management practices.

Postal survey was used to collect data from target respondents. Postal survey had been implemented in two waves: (1) from September 2011 to November 2011, and (2) from December 2011 to January 2012. There is a cover letter to describe the importance and objective of the research in the context of Malaysian outsourcing management for electrical and electronic manufacturing industry which includes the names of academic institution and the signature of the project supervisor in order to improve the response rate.

The survey packet contained a cover letter as explained earlier on, the survey instrument brochure and a self addressed envelope. Self addressed envelope was used for the respondents' ease of returning the questionnaire. The respondents were given approximately four weeks to respond. Then a follow up mail with a replacement questionnaire was sent to increase the rate of response for those who have not responded. These follow-up letters served as a "thank you" to participants and as a reminder to those who had not yet returned their completed surveys (Dillman, 1978). The reconciliation of the survey ends by the eighth week. The study focuses only on the Malaysian electrical and electronic manufacturing companies. The unit of analysis is at the organizational level as the objective of the study is to identify the relationship between relational-oriented exchange and outsourcing success moderated with environmental dynamism. A total of 865 survey packets were sent to the entire population to increase the data collection rate. The returned questionnaires are sorted into early and late responses over three to four months period. A non-bias response analysis was conducted.

## 5.0 Result Analysis, Hypotheses Testing and Discussions

### 5.1 Relationship between relational-oriented exchange and outsourcing performance

Multiple regression analysis was performed for dependent variable – outsourcing success and independent variable – relational-oriented exchange to understand the direct relationship between relational-oriented exchange and outsourcing success. The multiple regression (R), squared multiple regression (R<sup>2</sup>) and adjusted squared multiple regression (Adj. R<sup>2</sup>) indicate how well the combination of independent variable predicts the dependent variable. The result of multiple regression between relational-oriented exchange factor and outsourcing success is as below.

The regression equation with predictor was significant,  $R = .637$ ,  $R^2 = .405$ ,  $\text{Adj. } R^2 = .403$ ,  $F(1, 210) = 141.806$ ,  $P < .001$ . In other words, the multiple correlation coefficients between the dependent variable were .637; the predictor accounted for 40.5% of the variance in the outsourcing success. The generalizability of this model in other population was .403. The value of R<sup>2</sup> dropped to only 0.002 (about 0.2%) in the adjusted R<sup>2</sup>, which indicates that the cross validity of this model was fine.

**Table 5.1 Summary of hypotheses testing on the direct effect of the relational-oriented exchange factor on outsourcing success**

| Variables                    | Outsourcing success                            | Remarks                    |
|------------------------------|--|----------------------------|
| Relational-oriented exchange | $\beta = 0.637$<br>$t = 11.908$<br>$p = 0.000$ | H <sub>A</sub> : supported |
| R                            | 0.637  |                            |
| R <sup>2</sup>               | 0.405  |                            |
| Adj R <sup>2</sup>           | 0.403  |                            |

The significant F-test revealed that the relationship between dependent variable and independent variable was linear and the model significantly predicted the dependent variable. The  $F(1, 210) = 141.806$ ,  $P < .001$ , indicates an overall significant prediction of the independent variable which is relational-oriented exchange factor's ( $\beta = .637$ ,  $t = 11.908$ ,  $p = 0.000$ ) prediction of the outsourcing success. This study hypothesized that relational-oriented exchange factor has a significant positive impact on outsourcing success (Hypothesis 1). The results demonstrate that this hypothesis is fully supported.

### 5.2 Moderating effect of environmental dynamism factors on relationship between relational-oriented exchange (ROE) factor and outsourcing success

This section investigate the moderating effect of environmental dynamism (customer demand and market competition) collectively on the relationship between relational-oriented exchange (ROE) factor and outsourcing success. The outcome gave the answer to the second research objective of the study. Hierarchical regression analysis was performed to test the

moderating effect of the environmental dynamism on the relationship between the ROE factor and outsourcing success.

Hierarchical regression or moderator regression has been suggested by many authors as the technique for analysis the moderating effect (Frazier, Baron, & Tix, 2004). Russ and McNeilly (1995) argued that a less stringent significant level of  $p < .25$  should be used to resolve the lack of power in detecting the effect of the moderator. In this study, three levels of significance (1%, 5% and 10%) were used to detect the moderating effect of environmental dynamism on the relationship between ROE factor and outsourcing success. To test the moderator effect, a three step hierarchical was conducted to determine what proportion of the variance in a particular variables is explained by other variables when these variables are entered into the regression analysis in a certain order (Cramer, 2003).

In the first step, the direct effect of independent variable was gauged, in the second step, the moderator variable was entered to gauge whether the moderator (environmental dynamism) has a significant direct impact on the dependent variable (outsourcing success) and in the third step, the interaction terms (product of the independent variable and moderator variable) were entered to see any additional variance explained. For moderator effect to be present, step 3 must show a significant  $R^2$  increase with a significance F-change value. Once step 3 shows a significant  $R^2$  increase it can be concluded that there is moderating effect. To know whether there is moderating effect, we look at the t-value and p-value under the coefficient table of model 3.

The last objective of the study is to examine the impact of environmental dynamism as a moderator on the relationship between supplier-manufacturer relationships on outsourcing success. The study investigated the moderating effect of environmental dynamism on the relationship between relational-oriented exchange factor and outsourcing success variable. The findings revealed that the second (2a & 2b) hypotheses were fully supported. Hence, environmental dynamism moderated the relationship between relational-oriented factor and outsourcing success.

**Table 5.2 Summary of hypotheses testing for the interaction between relational-oriented exchange factors, environmental dynamism and outsourcing success**

| Models  | Outsourcing success                             | Remarks           |
|---|---|-------------------|
| Relational-oriented exchange x Customer demand    | $\beta = -0.507$<br>$t = -2.313$<br>$p = 0.022$ | $H_A$ : supported |
| Relational-oriented exchange x Market competition | $\beta = -0.344$<br>$t = -1.647$<br>$p = 0.100$ | $H_A$ : supported |

The results of the moderating effects of environmental dynamism on the relationship between relational-oriented factor and outsourcing variables support the literature on the relational exchange theory that focuses on the fluctuating and dynamic environment of the strategic relationship and the firm performance (Gilley & Rasheed, 2000; Quinn, 1992; Ward, Duray, Leong, & Sum, 1995).

Empirical evidence predicts that environmental factors needs to interact with strategic relationship to create relationship that are able to adapt to new conditions and to increase confidence in exchange partners' future actions, which support risk-taking and reciprocity-based behaviours. The exchange partners need to adapt and require the improved flexibility and behaviour confidence of relational-based exchanges (Cannon & Perreault, 1999; Dahlstrom, McNeilly, & Speh, 1996) to sustain long-term relationship. This study provides managerial implications for managers particularly in supplier-manufacturer relationship management. Managers are suggested to invest various resources such as time, money, commitment and others to support business relationship strategies. From the evidence of study, organizations were suggested to develop environmental support with the intention of additional benefit from different strategic activities.

## **6.0 Implications of the study**

### **6.1 Managerial implications**

This study also provides practical contributions which can help supply chain managers especially in Malaysia in improving the outsourcing performance. Firstly, relationship orientation is used to assess the level of any long-term relationship between supplier-manufacturer who participated in this study. This enables manufacturing company to compare its degree of relationship orientation against its peers in the industry. Supply chain managers could use this information to recognize their degree of company's relationship orientation towards their customers. Besides that, the company can particularly assess these activities to make sure whether or not their efforts have been effectively implemented to achieve better outsourcing performance.

Next, electrical and electronic manufacturing industries are facing various challenges in their business environment. These challenges may stem from internal factors such as their employees or external factors such as their competitor and customers. This study only focuses on customer(manufacturer) relationship management that is an essential aspect of supplier's success (Heide & Stump, 1995; Humphreys, Williams, & Goebel, 2009) due to shortage of time and financial resources. The success and failure of the companies are always determined by the success and failure in customer relationship management (Durand, Kozak, Beauregard, & Poulin, 2009). Hence, the study suggests that manufacturing companies implement relational orientation (strategic relationship) to manage their external challenges (customer) and ultimately their outsourcing performance. In addition, the findings of this study show that relational orientation between supplier-manufacturer's impact upon outsourcing success is positively related to organization performance.

### **6.2 Theoretical implications**

Particularly, this study found the empirical evidence for the theoretical relationship in the research framework. This study has two main hypotheses. All hypotheses are fully supported. First, this finding supported the relational view theory which suggested that the company implement outsourcing strategy to achieve outsourcing performance. Outsourcing success can also be explained by supplier-manufacturer strategic relationship through

relationship orientation. Hence, the role of strategic relationship as an independent variable of the outsourcing performance was discussed in this study.

Second, this study discussed the role of environmental dynamism as a moderator in the relationship between relational-oriented exchange and outsourcing performance of the manufacturing industries. This study found evidence that the manufacturing industries outsourcing performance can be related with the relational-oriented exchange and environmental dynamism. In general, strategic relationship factor is moderated by environmental dynamism which is customer demand and market competition.

Based on the prior study, there is lack of study about the moderating effect of environmental dynamism in the strategic relationship, specifically outsourcing success in electrical and electronic manufacturing industry. Therefore, this study has established a research framework to access the moderating effect of environmental dynamism. Although this study is new terms of identifying the role of environmental dynamism as moderator, it is still governed by the relational view (Palmatier, Dant, & Grewal, 2007) and other related literature. In fact, the relationship between relational norms and sales growth was moderated by environmental dynamism. Moreover, the relationship between customer commitment and overall financial performance was moderated by environmental dynamism. Lastly, the relationship between relational-oriented exchange and outsourcing success was moderated by customer demand and market competition. These findings are an extensive contribution to the frontier of knowledge.

In brief, this study provides evidence that environmental dynamism plays a critical role in moderating the relationship between relational-oriented exchange and outsourcing performance. These findings provide support for the relational view of the organization, which focuses on the importance of strategic relationship (relational-oriented exchange – expectation of continuity, team-consciousness, cooperation and communication) and uncertainty (environmental dynamism) in explaining outsourcing performance.

## **7.0 Limitations of the study**

Supplier-manufacturer relationships have become more important especially in manufacturing industries. In order to achieve superior outsourcing performance and sustain competitive advantages, companies are required to develop and implement practices that contribute to superior supplier-manufacturer relationships. This study conceptualized and operationalized one such portfolio, relational-oriented exchange, and empirically assessed its impact on outsourcing performance through a moderating model named environmental dynamism. The relationship orientation, also known as, strategic relationship contributes to the supplier-manufacturer long-term relationship development implemented by companies.

There are several limitations in this study which give credit to the desirability of future research on supplier-manufacturer relationship management. First, time series studies might discover how dynamic changes in the configuration of strategic relationship orientation might affect company specific outsourcing performance as a firm evolves in nature and in response to environmental changes. In response to environmental dynamism, the changing contributions to outsourcing success of supplier-manufacturer strategic relationship, over time, could extend the interpretation of this relationship.

Second, learning constructs are added into the model and the impacts of the dynamics of learning among relationship exchange partners on outsourcing success are studied. For

instance, from the current literature, there is an important skill in acquiring and internalizing tacit resources and capabilities from a company's exchange partners which is the absorptive capacity that might affect the relationship behavior of the partner companies.

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**Appendix A:**  
**Questionnaire**



## JABATAN PENGAJIAN TINGGI

BAHAGIAN HUBUNGAN INDUSTRI

ARAS 7, NO. 2, MENARA 2, JALAN P5/6,

PRESINT 5, 62200 PUTRAJAYA

Tel : (603) 8870 6461 Faks : (603) 8870 6845 Web : <http://jpt.mohe.gov.my>



Reference : JPT.P (BHI) 7221/1/824( 5 )

Date : 1 December 2011

To whom it may concern:

Sir,

### PERMISSION TO PERFORM ACADEMIC RESEARCH IN THE MALAYSIAN MANUFACTURING INDUSTRY

With respect to the above subject.

2. This is a letter of support for Mr. Mohamad Ghozali Hassan from Universiti Utara Malaysia to carry out research relating to the preparation of his doctoral thesis titled "**The Perceived Impact of Industrial Supplier-Manufacturer Relationship and Environmental Dynamism on Strategic Outsourcing Success in Manufacturing Industry in Malaysia**". This student has demonstrated a genuine interest to explore the relationship between the variables of *dependence, trust, communication behaviour, relationship quality* and *environmental dynamism* towards the *sourcing project success*.

3. Assistance given by the industries in the above matter is highly appreciated.

Yours Sincerely,

(**PROF. DR. SHAMSUDDIN BIN BAHARIN**)

Director

Industry Relations Division

Department of Higher Education

Level 7, Tower 2, Road P5/6,

Precinct 5, 62200 Putrajaya

1

www.moe.gov.my





**PERSEKUTUAN PEKILANG-PEKILANG MALAYSIA**  
**FEDERATION OF MALAYSIAN MANUFACTURERS (7907 X)**  
(A Company Limited by Guarantee)

16<sup>th</sup> November, 2011

To Whom It May Concern:

Dear Sir/Madam

**SUPPORT FOR ACADEMIC SURVEY IN E & E SECTOR**

Please be informed that we understand that Encik. Mohamad Ghozali Hassan of College of Business, University Utara Malaysia is in the process of carrying out survey on "The Perceived Impact of Industrial Supplier-Manufacturer Relationship and Environmental Dynamism on Strategic Outsourcing Success in Electrical and Electronic Industry in Malaysia.

We understand that the survey is being sponsored by the University Utara Malaysia research grant and responses from the industry will be on a voluntary basis relative to each individual company's consent.

We also hope that you will give your full support to the survey.

Thank you.

Yours sincerely,

Cheah Eng Kooi  
FMM Penang Branch – Head of Branch



**PENANG BRANCH**  
2767, Mukim 1, Lobuh Tenggara 2, Bandar Seberang Jaya, 13700 Seberang Perai Tengah, Penang, Malaysia  
Tel: 04-3992057 Fax: 04-3994863 E-mail: fmmpenang@fmm.org.my  
Website: <http://www.fmm.org.my>



KEMENTERIAN PERDAGANGAN ANTARABANGSA DAN INDUSTRI  
MALAYSIA Wilayah PULAU PINANG  
MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY  
MALAYSIA, REGIONAL OFFICE  
TINGKAT 8, BANGUNAN TUANKU SYED PUTERA  
10300 PULAU PINANG  
Telefon : ( 604 ) - 262 5133  
Fax : ( 604 ) - 262 5131



11 September 2009



Web site : <http://www.miti.gov.my>

Fail Tuan :  
Fail Kami : MTI.PG.1/10 JLD.7 (25)  
Tarikh : 21 Oktober 2011

#### SEPERTI SENARAI EDARAN

Tuan/Puan,

#### SOKONGAN UNTUK MENJALANKAN KAJIAN AKADEMIK DI INDUSTRI PEMBUATAN ELEKTRIK DAN ELEKTRONIK MALAYSIA

Sukacita saya merujuk perhatian tuan/puan kepada perkara di atas.

2. Dimaklumkan bahawa Kementerian Perdagangan Antarabangsa dan Industri (MITI) Wilayah Pulau Pinang difahamkan bahawa Encik Mohamad Ghozali Hassan dari Universiti Utara Malaysia sedang menjalankan satu kajian untuk penyediaan tesis kedoktoran beliau yang bertajuk "*The Perceived Impact of Industrial Supplier-Manufacturer Relationship and Environmental Dynamism on Strategic Outsourcing Success in Electrical and Electronic Industry in Malaysia*".

3. Skop kajian yang dijalankan oleh beliau terhad kepada hubungan pembolehubah pergantungan (*dependence*), kepercayaan (*trust*), kelakuan komunikasi (*communication behavior*), kualiti hubungan (*relationship quality*) dan kedinamikan persekitaran (*environmental dynamism*) terhadap kejayaan projek khidmat luaran (*sourcing project success*).

4. Pihak Kementerian menyokong kajian yang dijalankan ini memandangkan penemuan daripada kajian ini boleh membantu menggambarkan situasi sebenar yang berlaku di dalam industri serta membantu pihak Kementerian untuk memahami kedudukan semasa kemampuan daya saing industri Elektrik dan Elektronik tempatan khususnya di koridor utara.

Malaysia - Ke Arah Daya Saing Global  
Malaysia - Towards Global Competitiveness

5. Sehubungan itu, kerjasama tuan/puan adalah dipohon untuk membantu dan memberi kerjasama yang bersesuaian kepada Encik Mohamad Ghozali Bin Hassan sepanjang beliau menjalankan kajian tersebut.

Sekian, terima kasih.

**“BERKHIDMAT UNTUK NEGARA”**

**“1 MALAYSIA, RAKYAT DIDAHULUKAN, PENCAPAIAN DIUTAMAKAN”**

Saya yang menurut perintah,



**(MOHD IQBAL BIN MOHD NOOR)**

Pengarah,  
Kementerian Perdagangan Antarabangsa dan Industri  
Pejabat MITI Wilayah Pulau Pinang

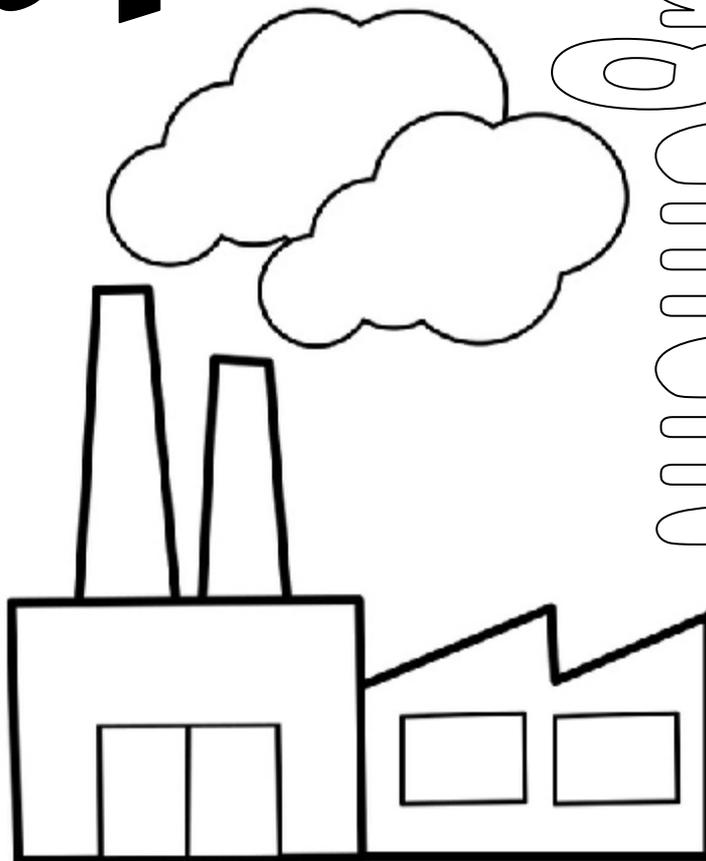
b.p Ketua Setiausaha  
Kementerian Perdagangan Antarabangsa dan Industri  
Malaysia



FEDERATION OF  
MALAYSIAN  
MANUFACTURERS

# Supplier

# Management



MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

*...this questionnaire, please!"*



Dear Sir/Madam,

**Research Invitation on How the Suppliers Deal with Customers/Manufacturers**

I would like to extend this research invitation to your organization and would be very grateful if you be willing to participate in this research project.

Outsourcing is essential to companies. Key element of outsourcing success is a good partner between supplier and manufacturer. The management of supplier relationships is a critical responsibility for manufacturers and it can contribute to both competitiveness and profitability of a firm.

We, at School of Technology Management and Logistics (STML) have developed a research project that tries to get a better understanding of how the contemporary supply chain management personnel deal with their customers/manufacturers. The survey is being sponsored by the Universiti Utara Malaysia research grant. It will be of great importance to this project to receive your supply chain management personnel input. You may be assured that all answers will be kept strictly confidential and anonymous.

Enclosed is the sample of the questionnaire. All we need is to get your help to distribute a few sets of this questionnaire to the supply chain management personnel of your organization.

As a token of our appreciation, School of Technology Management and Logistics would like to offer you the final report of the survey and sent to all interested participants.

I would be glad to answer any inquiries you may have and I can be contacted through the address given below.

Best regards,

**Mohamad Ghozali Hassan**  
MBA (UUM, Malaysia)



## OBJECTIVE OF THE RESEARCH STUDY

This questionnaire aims to collect information data on how suppliers deal with their manufacturers/customers. The objective of this research is to gain new insights into effective outsourcing practices.

## CONFIDENTIALITY

- The information you provide will be kept strictly confidential.
- Your identity will not be divulged to a third party.
- Your responses will only be seen by an independent researcher. At no stage, will anyone at your organization have access to an individual questionnaire.
- Individual responses will not be identifiable since the information collected will be released in aggregated form.
- Therefore, please be the most honest you can in your responses!

## BENEFITS FOR YOURSELF

In return for your participation, UUM College of Business will offer you the report with the conclusions of this study which will include suggestions and recommendations on how supply chain management personnel may be more successful in dealing with business customers or manufacturer.

## BENEFITS FOR YOUR ORGANIZATION

In return for your participation, your organization will have access to a report with the conclusions of

## HOW TO FILL IN THE QUESTIONNAIRE

1. Most of the questions in this questionnaire required you to circle the options that best represent your opinion. In some instances, you are required to tick [ ] or write your answers in the appropriate response space.
2. There are no rights or wrong answers. Thus, we would appreciate your honest and complete response to help us understand your views better. In some of the questions you may find it difficult to choose an answer. It may feel like neither option describes you perfectly or that more than one option suits you. If this happens, guess which option suits you better.
3. The questionnaire is divided into six sub-sections. You are asked to fill in all the sections. It will take approximately 20 – 30 minutes to complete.
4. Please send the completed questionnaire in the free post envelope provided. Please make sure you seal it. We would be very grateful if you could return the completed questionnaire within 7 days in the enclosed envelope.
5. If you need assistance on how to fill in the questionnaire or further information about this research, please contact;

Mohamad Ghazali Hassan,  
Doctoral Researcher  
School of Technology Management  
& Logistics  
College of Business  
Universiti Utara Malaysia  
06010 UUM Sintok  
Kedah, Malaysia  
Telephone:+604-928 7153  
Fax:+604-928 6860  
Email: ghozali@uum.edu.my

this study which will include suggestions and recommendations on how improvement in organizational PERFORMANCE may be achieved through relationship quality between supplier and manufacturer.

**Thank you very much for this cooperation,**

**Mohamad Ghozali Hassan**  
BEng. (Electronic) MBA

**AS A THANK YOU TO ALL RESPONDENTS**

At the end there is the opportunity for you to suggest a donation to charity or a **RM100** cash prize. If you are interested to win this prize draw, please send me your business card together with your completed questionnaire.

**This questionnaire aims to collect information data on how supplier deals with their manufacturer/customer. The objective of this research is to gain new insights into effective outsourcing practices.**

**SECTION A: GENERAL INFORMATION**

**Please select (or fill in where required) the most appropriate answer to describe your current company by providing a check mark in one of the boxes for each question or by filling-in-the-blank.**

1. Please indicate your company ownership

- 1 = Malaysia Owned
- 2 = Foreign Owned

2. If Foreign owned, please indicate the country of origin

- 1 = Korea, Japan, Taiwan, Singapore or any Asian countries
- 2 = USA or any European Countries
- 3 = If Joint Venture, please indicate between which country: .....

3. Which sector your company is involved into:

- 1 = Electrical (Telecommunication)
- 2 = Electronic
- 3 = Others(Please indicate) .....

4. Please state your company's main product: .....

5. Have you been working with multinational companies?

- 1 = Yes
- 2 = No

6. Based on your experience, have you been involved in product transfer/outsourcing?

- 1 = Yes
- 2 = No

(If no, please do not proceed)

7. Please provide us with the organization's name of your partner on the most successful strategic outsourcing customer.

The most successful customer: .....

8. Please indicate the size of your company's employees

- 1 = Less than 50 employees
- 2 = Between 50 to 150 employees
- 3 = More than 150 employees

9. What is your primary job title within your firm?

- 1 = Corporate Executive
- 2 = Purchasing
- 3 = Planning
- 4 = Materials
- 5 = Operation
- 6 = Logistic

**SECTION C: YOUR VIEW ON THE COMPANY BUSINESS ENVIRONMENT**

Environmental dynamism includes uncertain customer demand, technology changes and competitive threats that are expected to affect supplier relationship with the most successful customer towards strategic outsourcing success. Always answer by *circling* the correct answer. How *rapid* or *intense* is each of the following in your industry?

| Customer Demand |   | Strongly Disagree | Moderate |   |   |   |   | Strongly Agree |   |
|-----------------|---|-------------------|----------|---|---|---|---|----------------|---|
| ED30.           | Customer demand changes rapidly in the industry.              |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| ED31.           | Customer demand on product specifications changes rapidly.    |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| ED32.           | Customer demand is difficult to be predicted in the industry. |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| ED33.           | Our customers change their order lot size over the year.      |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| ED34.           | Our customers change their delivery date over the year.       |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |

**SECTION C (...cont): YOUR VIEW ON THE COMPANY BUSINESS ENVIRONMENT**

Environmental dynamism includes uncertain customer demand, technology changes and competitive threats that are expected to affect supplier relationship with the most successful customer towards strategic outsourcing success. Always answer by *circling* the correct answer. How *rapid* or *intense* is each of the following in your industry?

| <b>Technology changes</b> |  | <b>Strongly Disagree</b> | <b>Moderate</b> |   |   |   |   | <b>Strongly Agree</b> |   |
|---------------------------|--|--------------------------|-----------------|---|---|---|---|-----------------------|---|
| ET35.                     | Technology changes rapidly in our industry.  |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| ET36.                     | Technology changes provide opportunities to enhance competitive advantage in our industry. |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| ET37.                     | Technology breakthrough generates new products frequently in our industry.                 |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| ET38.                     | Technological changes provide numerous opportunities for our alliance.                     |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| ET39.                     | Process technologies employed in our plant are new and/or complex                          |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| ET40.                     | Our plant uses core production technologies that often change                              |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| <b>Market Competition</b> |  | <b>Strongly Disagree</b> | <b>Moderate</b> |   |   |   |   | <b>Strongly Agree</b> |   |
| EC41.                     | Competition is driven by short product life cycle.   |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| EC42.                     | Entry of new competitors into the market is difficult to predict.                          |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| EC43.                     | Competitors' strategies in the industry might be difficult to predict.                     |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |
| EC44.                     | Competitors' actions regarding marketing promotions are unpredictable.                     |                          | 1               | 2 | 3 | 4 | 5 | 6                     | 7 |

|       |  |               |
|-------|--|---------------|
| EC45. | Competitors often introduce new part and/or product features frequently. | 1 2 3 4 5 6 7 |
|-------|--|---------------|

**SECTION D: YOUR VIEW ON THE COMPANY PERFORMANCE**

The following questions relate to your perception of how successful you consider your company's outsourcing relationship with the most successful customer. Please indicate how you would rate your company's outsourcing success by circling the preferred option.

| Financial Performance     |   | Strongly Disagree | Moderate | Strongly Agree |
|---------------------------|---|-------------------|----------|----------------|
| PF46.                     | [For this Manufacturer's products],<br>...our performance was very high in terms of sales growth. | 1 2 3 4 5 6 7     |          |                |
| PF47.                     | ...our performance was very high in terms of profit growth.                                       | 1 2 3 4 5 6 7     |          |                |
| PF48.                     | ...our performance was very high in terms of overall profitability.                               | 1 2 3 4 5 6 7     |          |                |
| Non-financial Performance |   | Strongly Disagree | Moderate | Strongly Agree |
| PS49.                     | We are clear about objectives and expectations of outsourcing activities.                         | 1 2 3 4 5 6 7     |          |                |
| PS50.                     | We feel that we have chosen the right outsourcing partners (customer).                            | 1 2 3 4 5 6 7     |          |                |

|       |   |   |   |   |   |   |   |   |
|-------|---|---|---|---|---|---|---|---|
| PS51. | We have adequate skill to negotiate a sound contract.                           | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS52. | We have done the right planning during all various phases of outsourcing.       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS53. | We have an effective organizational communication.                              | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS54. | We have well coordinated effort among cross-functional areas.                   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS55. | Our top management has been highly involved and has provided effective support. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS56. | We have effectively used the performance incentives and penalties.              | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS57. | We have the right people involved.  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PS58. | We have adequate supporting infrastructures.                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| <b>Non-financial Performance (...cont)</b> |  | <b>Strongly Disagree</b> | <b>Moderate</b> |   |   |   |   | <b>Strongly Agree</b> |
|--|--|--------------------------|-----------------|---|---|---|---|-----------------------|
| PS59.                                      | We have high morale and high performance employees.                            | 1                        | 2               | 3 | 4 | 5 | 6 | 7                     |
| PS60.                                      | We emphasize on both short and long-term benefits.                             | 1                        | 2               | 3 | 4 | 5 | 6 | 7                     |
| PS61.                                      | We have adequately and objectively done the performance criteria and feedback. | 1                        | 2               | 3 | 4 | 5 | 6 | 7                     |

PS62.

We are flexible in anticipating change.

1 2 3 4 5 6 7

**SECTION B: YOUR VIEWS ON THE COMPANY STRATEGIC RELATIONSHIP**

Listed below are statements about the common practices use by many companies towards its relationship with customers. Respond to each statement pertaining to your company's relationship with the most successful customer.

| How much do you agree with the following statements about your company's practice towards strategic relationship? |   | Strongly Disagree | Moderate |   |   |   |   | Strongly Agree |   |
|---|---|-------------------|----------|---|---|---|---|----------------|---|
| RO63.   | In activities where both of us are concerned, there is a joint effort.  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO64.   | We help our customers in some tasks.  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO65.   | Our customers help us in some tasks.  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO66.   | In this relationship communication is 2-way (bilateral).  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO67.   | There is frequent exchange of information.  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO68.   | Our customers and our firm have team consciousness.   |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO69.   | We expect a long relationship with our customer.  |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |
| RO70.   | In the relationship, we make plans for the long term and not only for individual sales but also for the continuity of the relationship. |                   | 1        | 2 | 3 | 4 | 5 | 6              | 7 |

## SECTION E: RESPONDENT PROFILE

Please tick [ / ] the relevant box for each question or write in the appropriate response.

1. Education Level:

1 = Tertiary Education  
(Master, Doctoral)

2 = Tertiary Education  
(Bachelor)

3 = Diploma or equivalent  
Certification

2. Your years of working experiences in your current job function

1 = Less than  
5  
years

2 = 5 to 10  
years

3 = 10 to 15  
years

4 = 10 to 15  
years

5 = More  
than  
20 years

3. What is your company name that you are currently working with:

.....

4. Please indicate if you would like to participate for future research (e.g.: researcher visit to your plant)

1 = Yes

2 = No

5. Please indicate if you would like to receive a copy of the executive summary of the results:

Email address: .....

**THANK YOU FOR YOUR TIME IN COMPLETING THIS QUESTIONNAIRE.  
YOUR COOPERATION AND SUPPORT IS HIGHLY APPRECIATED.  
INFORMATION WILL BE KEPT CONFIDENTIAL.**



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**PERSEKUTUAN PEKILANG-PEKILANG MALAYSIA**  
**FEDERATION OF MALYSIAN MANUFACTURERS (7907-X)**  
(A Company Limited by Guarantee)

24 October 2011

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**Research Invitation on How the Suppliers Deal with  
Customers/Manufacturers**

I would like to refer to our discussion on the above mentioned research project. On behalf of FMMM Kedah/Perlis, I would like to extend our gratitude to you for your willingness to collaborate with the Federation in carrying out this research project.

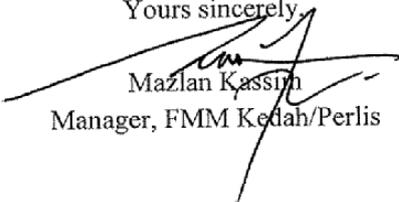
2. We, therefore, **would like to extend our full support for you to conduct the data collection among FMM members in Kedah/Perlis.** We, however, note that this exercise is voluntary and would depend on the individual company's consent.

3. We also would like to stress that all submissions by interested companies / individuals should be kept **STRICTLY CONFIDENTIAL**. Furthermore, participating companies should be offered the final outcomes of the research projects.

4. We sincerely hope that the outcomes of this research projects would benefit both the academic and the related manufacturing sector.

Thank you.

Yours sincerely,

  
Mazlan Kassim  
Manager, FMM Kedah/Perlis



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## ACKNOWLEDGEMENT

In the preface, the author of this report would like to take the chance here to express thousand of thankfulness from the sincerely heart to all people who involved direct or indirectly to assist in this report. First and foremost, I would like to express my deepest thanks to my supervisor, En Mohamad Ghozali bin Hassan for the review, constructive comments and guidance during this entire process until it is fully completed. Additionally, I would like to thank my team mate for the cooperation that they gave to me during the research. Finally, an honourable mention goes to my parents, my sister, my brother and my special friend for the forbearance and full support in completing this project. Without helps and love from them, I would face many difficulties while doing this project.



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## LEADERSHIP ROLE IN CREATING LEAN CULTURE

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### **Abstract:**

**Objectives:** The purpose of this paper is to explore the leadership role in building lean culture.

**Theoretical Background/Previous Practice:** Many researchers view lean as a general system to improve the profitability of manufacturing. However, there exists discontent in implementing lean manufacturing as reports claim a low success rate in implementing lean. Lean manufacturing has been extensively studied in the automobile industry but some researchers attribute the lack of transportability into other industries as one of the reasons lean has not been implemented more successfully. Some researchers believe that creating a particular culture is needed to implement lean while others discuss the importance of leadership as the missing link to successfully implementing lean.

**Approach/Methods:** This conceptual paper builds on major sources of the lean manufacturing community including lean manufacturing journals, conference and central journal/conference databases. Forward and backward searches additionally deepen the analysis. Finally, a model of leadership role in lean culture is developed.

**Results/Insights:** The results of the literature review provide evidence that leadership role toward building lean culture is an under researched topic in lean manufacturing. A framework will help further understanding on leadership role in lean culture.

**Implications:** The framework provides an orientation for managerial practice. It helps identify dimensions of possible conflicts based on lean culture aspects. It thus aims at raising awareness on potentially neglected leadership factors.

**Keywords:** Lean culture, lean manufacturing, leadership.



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## 1.0 Introduction

A lean culture is where all employees participate in activities to reduce business waste. The definition of a lean culture probably varies by company and is dependent upon how they define lean. It should consist of beliefs and behaviours of employees who understand their company goals and objectives and their importance, understand the purposes of lean improvements, have the necessary lean tools and techniques and are then given reasonably free hand to do so on an ongoing basis. Companies that have successfully created a lean culture consistently realize: more innovative, team-directed solutions, lower employee turnover, better success at sustaining improvements and greater numbers of improvement actions. In order to have strong and solid lean culture it must include two key principles, which are “continuous improvement” and “respect for people”(Ohno, 1988;Toyota, 2001).

Leadership on other hand is very important in lean transformation. Lean is not something can engineer or buy over the counter. When done right lean change the way we think, talk, see, act and react. It is a battle for people minds and hearts and such battle requires leadership. By definition, leadership requires leading people somewhere in this case creating lean culture where everybody involved in lean transformation has a same goal and vision to eliminate waste and create value for the end user (Ohno, 1988; Womack and Jones, 1996). In lean transformation, leadership role is normally been given to senior manager level (Mann, 2009). Unfortunately, most senior managers currently understand, and practice leans as a set of tools – simple add-ons to conventional manufacturing practices and also views lean as a way to reduce labour costs, typically through layoffs (Post and Slaughter, 2000; Varnon, 2003; Womack, 2003).

For example, most senior managers implement only “continuous improvement,” and do not implement both “continuous improvement” and “respect for people”. If they see it at all, “respect for people” is incorrectly understood as adding cost, when in fact, it reduces costs (Johnson and Broms, 2000; Emiliani et al., 2003). They forgot that the “respect for people” principle is the key to making the Lean manufacturing work (Emiliani, 1998a; Toyota, 2001; Emiliani et al., 2003). As a result, most businesses and their end-use customers fail to realize the benefits of the Lean manufacturing (Womack et al., 1990; Nishiguchi, 1994; Dyer and Nobeoka, 2000; Emiliani et al., 2003; Dyer and Hatch, 2004; Spear, 2004). In effect, they are lost in transformation.

Therefore, the purpose of this paper is to review the leadership role in lean thinking, which will ultimately help in implementing lean manufacturing. The paper also presented a conceptual framework of leadership regarding its role in creating lean culture.

## 2.0 Literature review

Organizational can invest a lot of time and money in lean efforts but if people eventually revert to their old ways, the gain will not be sustained over time and improvement fails. To



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truly transform into lean manufacturing, the company lean culture must be addressed. Culture is not an ambiguous term. It is a key for improvement. Two main pillars of lean culture are "respect for people" and "continuous improvement" which will be discussed in this literature and how the leadership role in creating or supporting lean culture throughout the lean transformation will be examined so that how far the relationship between leadership and lean culture is true.

There is growing support in lean and other continuous-improvement philosophies that leadership is needed to support lean implementation (Achanga et al., 2006; Boyer, 1996; Conca, Llopis, & Tarí, 2004; Lucey, 2008; Mann, 2009; Motwani, 2001; Orr, 2005; Panizzolo, 1998; Worley & Doolen, 2006; Zeitz et al., 1997). To support the above statement, Alavi (2003) iterated that in order to implement the concept of lean manufacturing successfully, many researchers emphasized commitment by top management, and companies should utilize strong leadership capability to exhibit excellent project management styles. In essence, these qualities would facilitate the integration of all infrastructures within an organization through strong leadership and management vision and strategy. Good leadership ultimately promotes effective skills and knowledge enhancement among its workforce and minimizes the non-value activities in order to eliminate the wastes. Managers should also work to create interest in the implementation and communicate the change to everyone within the organization (Boyer & Sovilla, 2003), specifically; the needed information related to a worker in shop floor should be updated respectfully.

The change from a traditional manufacturing system to lean manufacturing is not an easy task. Achanga et al (2006) suggest that the success of lean manufacturing implementation depend on four critical factors: leadership and management; finance; skills and expertise; and supportive organizational culture of the organization. This support the study by Boyer (1996) that investment in manufacturing infrastructure such as quality leadership, group problem solving, training and worker empowerment is the critical stepping stones towards successful lean manufacturing. Besides that a case study on two successful companies in sustaining change towards lean manufacturing by Papadopoulou and Ozbayrak (2005) found that management commitment, communication, workforce empowerment and ownership improvement through a methodical lean education system and encouragement, and developments of lean culture are essential for sustaining change towards leanness.

Lean manufacturing is a human-based system where people were involved with continuous improvements, and the foundation for the system was leadership and empowerment through education and training. To have success with such a change process the fourth TQM principle – leadership – must also be applied (Dahlgaard et al., 1998a). Companies that succeed with implementing Lean Manufacturing principles have two things in common: strong leadership from the top and a willingness to change the organization's culture (Day, 1995). Most



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leadership in Lean Manufacturing, specifically empowering employees, appears to be a critical characteristic for successful lean implementations (Carroll, 2001).

Lean culture is needed to cause lean thinking in all actions managers will take. Undeniably, as mentioned by Emiliani (2006) and liker (2004), lean requires a long – term commitment. A medium – sized company would need a minimum of three to five years to start pursuing the lean philosophy (Chase, 2004). Mader (2005) emphasizes the need for strong top management leadership in the implementation process. Strong leadership is essential for the success of this initiative and also to communicate this idea. Convis (2001) adds that senior managers be involved in day-to- day improvements in operations. Tempel and Holländer (2001) add that top management presence and availability on the shop floor are one of the most critical points during the lean rollout. Therefore, a lean culture is characterised by emphasis on people first, trust, strong customer orientation and the joint shop floor. It can be seen that cultural and leadership aspects play a far more important role than the lean tools itself. The “respect for people” principle embodies leadership behaviours and business practices that must be consistent with efforts to eliminate waste and create value for end-use customers (Emiliani, 1998a, 2004b; Emiliani et al., 2003).

The barriers to lean implementation could be overcome with upfront planning, transformational leadership, excellent communication, identification and sharing of the best practice (Bateman and David, 2002). Referring to the transformational leadership, Burns (1978) has proposed different leadership styles that describe the different stages in a transformation process: transformational and transactional leadership styles. Bass’ (1985a) research concluded that transformational leadership can achieve better results than transactional leadership, because employees would put extraordinary effort in their work.

Bass and Avolio (1993) explained that transformational leaders changed organizational cultures, whereas transactional leaders work inside a predefined culture. They also described that there is a constant interplay between culture and leadership, which leads to the conclusion that to implement a lean culture needs a lean-supportive or a lean-minded leadership team. This finding concludes that implementing a lean culture needs the support of a transformational leader at the top of the organization, but that to sustain a newly implemented culture; transactional leadership is also needed. Schein (2007) supported Bass’ idea that leaders must create a learning culture. Schein argued that because the future will be more complex, faster, and more diverse, leaders need to continuously learn and adapt to this ever-changing environment as well as needing to foster a teaching organization.

Based on the literature review it can be concluded leadership is key to implementing lean manufacturing. This leads to a proposal that leadership needs to support lean culture for a



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transformation to be successful and more importantly to make sure that the implementation is realized. Most of the literature review mentioned about the importance of leadership, but none of them discussed the leadership role toward lean culture. The literature review also concludes that the leader of the organization has to support lean implementation and has to have strong transformational-leadership traits.

### 3.0 Methodology and framework

The role of leadership in supporting lean implementation cannot be denied. For a successful transformation, it needed strong leadership who will ensure that all activities set at the early stage are executed as planned. Leadership also promotes an effective skill among worker, and this new lean knowledge needs to be support and guide by a good leadership. By doing this all the workforce will follow the same direction to minimize non added value activities and eliminate waste.

Empowerment among workers must be promoted at all level. By empowering, leadership role is not exclusive for the top or middle management only. Empowering employees is one of the critical success factors for lean implementation. This can be done by education and consistent training. Willingness to change from a traditional manufacturing system to lean manufacturing is essential for top management. Senior managers must be willing to be involved in day to day process improvement. Their presence in the shop floor will set leadership by example. Therefore, workforce will see any improvement done by them as being valued and appreciated by the top management.

Creating a lean culture in a lean organization is crucial in a lean transformation process. Supportive lean culture from strong leadership is needed for the success of this lean initiative. Basically lean culture is emphasis on people first so that leadership and cultural aspects must be concurrently set up during or creating lean culture among the workforce. During the transformation period, there are a lot of barriers, which are if not handle it properly all the planning will be backsliding. Lean transformation needs to have transformational leadership style to support lean culture. Transformational leaders in organizations develop trust and confidence in their followers: such leaders are more interested in transformation of organizations, situations, and people. Transformational leaders use inspiration to motivate their followers; such leaders “transcend self-interest for the sake of the organization” (Yukl, 1989,). Burns (1978) described transformational leadership as an engagement between a leader and a follower based on an increased level of motivation and morality.

Based on above arguments, the authors suggest a framework on the leadership role in creating lean culture. The development of the model primarily builds on the human factor and continuous improvement which are the proxy for creating lean culture. Under this framework, the general assumption is that leadership plays an important role in creating lean culture during implementation of lean manufacturing.

As shown in Fig. 1, before a lean culture can be created, organizations must select leaders. As we know that Toyota has successfully implemented this lean manufacturing philosophy and the word lean basically create based on the Toyota Production System. When Toyota sends a contingent of Japanese coordinators to other countries to start up operations, they are looking for leaders or champions who are not merely managers. The Toyota way is designed to cultivate leaders. Pull out leaders at any point and the system will resume decaying (Liker, 2008). Since lean is a transformation process, transformational leadership style and thoughtful leadership as adapted by Toyota (2001) must-have for the selected leader. As a mentioned earlier two main pillars for lean culture which are respects for people and continuous improvement, leader needs to align their way of leadership toward this two. There are five leadership moves, five essential actions a leader can perform to help provide leadership on creating or supporting lean culture; a leader must be a teacher, build tension not stress, eliminate fear and comfort, lead through visible participation not proclamation and build lean into personal practice.

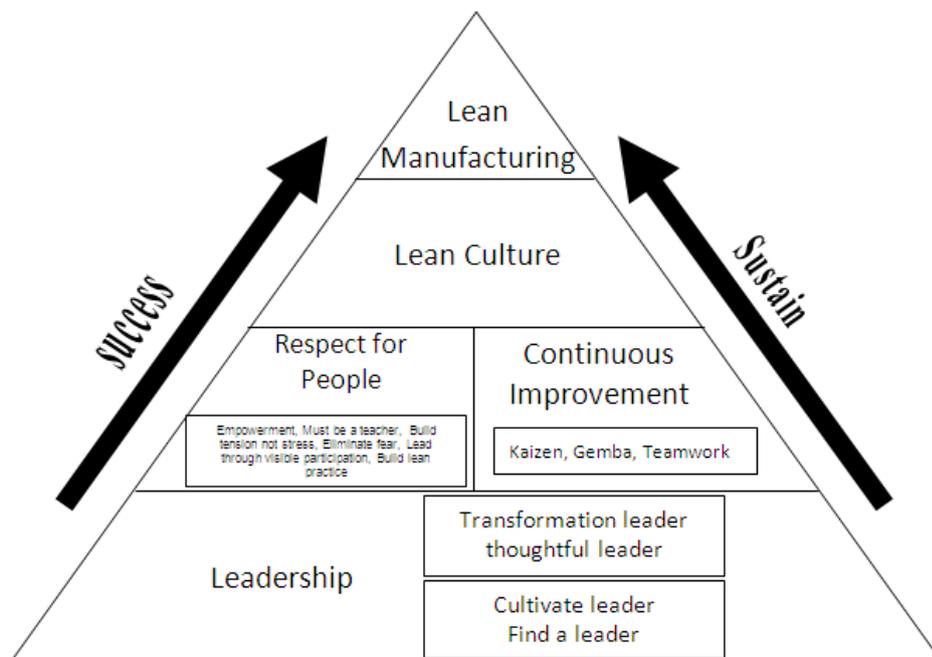


Fig. 1 Leadership role framework toward creating lean culture



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Besides that leadership need to have other elements such as challenge, kaizen, Genba walk, respect and teamwork. Back to the Toyota servant leadership principle, where the team members are placed at the top and the top management at the bottom in the upside-down pyramid. Team members are the added values in the values stream. However, as a leader they need to support those who are most actively adding value to the stream and therefore, the closer to the bottom of the pyramid, the more people responsible for supporting. Based on the proposed model, leadership is placed at the bottom of principle this simply because the leadership act as a strong foundation in order to support lean culture thought out the lean journey. Leader needs to recognize which element needs to segregate to the respect of people and continuous improvement so that the lean culture can be sustained and give a greater result in lean transformation or implementation process and importantly for its sustainability.

#### 4.0 Conclusion

Leadership is critical in lean transformation. This is because lean is not something that we can engineer. Lean culture needs a support from the lean minded leadership in order to make it happen and accept the fact that without the right culture, any attempt to make lean transformation is futile. People often understand lean with the tools that are used to create effective and standardization processes. However, implementing tools represents at most 20 percent of the effort in lean transformation. The other 80 percent of the effort is expended on changing leader's practices and behaviour (Mann, 2009).

Sustained lean success requires a change of mindset and behaviour among leadership and then gradually throughout the organization. Leaders develop culture so companies must invest in creating leaders who carry the lean culture of the company in their thoughts, words and actions. Companies or organization wants to implement lean should start with leadership issue. The proposed model which stresses that leadership must be a foundation for lean manufacturing implementation to success. By doing these companies should groom their leader at any level to support the lean culture. Issue of sustainability is main the goal in lean transformation. This model also can give a direction to the lean leader toward inculcate lean culture among the employee.

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## THE MEASUREMENT OF MARKET ORIENTATION: SCALE DEVELOPMENT AND PRELIMINARY VALIDATION

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### ABSTRACT

Market orientation has been recognised as an important type of strategic orientation a firm can adopt to achieve superior performance. Due its importance, the concept of market orientation has been a constant subject of discussion and development. One important development in the field was the creation of a model called MORTN by Deshpande and Farley (1998) which synthesised three previous market orientation scales to create a 10-item, single dimensional scale to measure market orientation. This paper examines the new measurement of market orientation derived from MORTN in an empirical study on small and medium enterprises (SMEs) in Malaysia. Apart from using MORTN for empirical research, this study also makes a theoretical contribution by proposing that instead of the single dimension of customer concept proposed in original model, MORTN actually has two dimensions, namely customer relationship management and customer satisfaction management. Using the methods of principal component analysis and confirmatory factor analysis, the results of scale development and preliminary validation of this revised MORTN measurement of market orientation consisting of these two dimensions are presented.

**Keywords:** *market orientation, new market orientation measurement, principal component factor analysis, confirmatory factor analysis.*

### INTRODUCTION



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Accepted as an important strategic orientation and suggested to contribute to long-term success of the firm, market orientation has emerged as an important contributor to firm performance (Deshpande and Farley, 1999). Given its importance for firm performance, the concept has been a constant topic of research; many scholars from diverse research backgrounds (organisational research, management, and marketing) have questioned the universality of market orientation and also attempted to explore new aspects of market orientation (Harris 2001). There are two main perspectives defining market orientation that can be found in the literature since the beginning of its conceptualisation. These two perspectives emerged at about the same time during the early 1990's. One perspective developed by Narver and Slater (1990) is known as the cultural perspective which suggests that marketing orientation is determined by three components i.e. customer orientation, competitor orientation, and inter-functional coordination; and these components are guided by two decision criteria namely long-term focus and profitability. The other perspective developed by Kohli and Jaworski (1990) is known as the behavioural perspective; it enumerates several components that define market orientation, namely, intelligence generation, intelligence dissemination and responsiveness to intelligence. According to Zhang (2008), both these studies by Kohli and Jaworski (1990) and Narver and Slater (1990) dissect the same phenomenon but from different angles. Deshpande and Farley (1998) and Matsuno et al. (2005) also support this view saying that despite their differences both these studies actually represent the same underlying concept of market orientation. Zhang (2008, p. 17) summarises the similarity between Kohli and Jaworski (1990) and Narver and Slater (1990) in the following way:

*The generation of market intelligence is all about generating intelligence on customer and competitors; the responsiveness to market intelligence includes responsive to customers and competitors; a customer orientation encompasses the generation and dissemination of, and responsiveness to, intelligence about customers; inter-functional coordination facilitates effective generation, dissemination and responding to market intelligence.*

Along the way, various scales of market orientation have emerged but MKTOR by Narver and Slater (1990) and MARKOR by Kohli, Jaworski and Kumar (1993) have continued to be the most popular. A meta-analysis by Cano et al. (2004) shows that a large proportion of empirical studies on market orientation mostly used MKTOR and MARKOR as measurement scales. Table 1 shows the type of measurement scales used by studies on market orientation from the year 1995 to 2010.

**Table 1: Market Orientation Measurement Scale Adopted by Previous Studies (from year 1995 to 2010)**

| MARKOR               | MKTOR             | Various modified scale from MARKOR and/or MKTOR |
|----------------------|-------------------|---|
| Liao et. al., (2001) | Han et al. (1998) | Deshpande and Farley (1998)                     |
| Antila (2002)        | Movando (1999)    | Matsuno et al. (2000)                           |



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|                         |                                    |                       |
|-------------------------|------------------------------------|-----------------------|
| Varela and Rio (2003)   | Tse et al., (2003)                 | Matsuno et al. (2005) |
| Kara et. al. (2005)     | Hooley et al. (2003)               | Zhou et al. (2005)    |
| Bathgate et. al. (2006) | Sin et al., (2004)                 | Hult et al. (2005)    |
| Macedo and Pinho (2006) | Aggarwal and Singh (2004)          | Ward et al. (2006)    |
| Rojas-Mendez (2006)     | Ellis (2005)                       |                       |
|                         | Hammond, Webster and Harmon (2006) |                       |
|                         | Zhang (2008)                       |                       |

Source: Adopted from Zhang (2008)

However, this study also suggests that a new measurement scale of market orientation called MORTN which was devised by Deshpande and Farley (1998) may prove to be an important and useful model for future research. MORTN was devised by Deshpande and Farley (1998) by synthesising three different scales – Narver and Slater’s MKTOR, a 15-item factor-weighted scale, Kohli, Jaworski and Kumar’s MARKOR, a free standing 20-item scale and Deshpande, Farley and Webster’s Customer Orientation scale.

## LITERATURE REVIEW

The literature review will discuss the structure and history of these different measurement scales. It will begin with a discussion of the three antecedent scales (i.e. MKTOR, MARKOR and Customer Orientation scales) and end with a close examination of the MORTN model.

### MKTOR Scale

The MKTOR scale was developed by Narver and Slater (1990) and consists of 15 items categorised into 3 dimensions. Narver and Slater (1990) suggest that a business must be customer oriented, competitor oriented and inter-functionally coordinated. The first dimension, customer orientation has 6 items such as 1) *customer commitment*, 2) *create customer value*, 3) *understand customer needs*, 4) *customer satisfaction objectives*, 5) *measure customer satisfaction and*, 6) *after-sales service*. The second dimension of MKTOR is competitor orientation which contains 4 items such as 1) *salespeople share competitor information*, 2) *staff respond rapidly to competitor’s actions*, 3) *top managers discuss competitor’s strategies and* 4) *firm targets opportunities for competitive advantage*. The third dimension is international coordination and has 5 items such as 1) *inter-functional customer calls*, 2) *information shared among functions*, 3) *functional integration in strategy*, 4) *all functions contribute to customer value*, and 5) *share resources with other business units*. MKTOR has been widely employed in empirical studies such as Aggarwal and Singh (2004), Ellis (2005); Hammond et al. (2006) and Han et al. (1998). However, researchers have also revised and created their own versions of MKTOR to suit the needs of their studies. For example, in their empirical study, Matsuno et al. (2005) took the initiative to evaluate the existing MO scales by comparing them with the extended MO scale (EMO) they developed. Matsuno et al. (2005) retained 12 items out of the 15 items for the EMO. Furthermore, other



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empirical studies by Movando et al. (2005) and Hult, Ketchen and Slater (2005) suggest that researchers may reconstruct MKTOR scale according to their study or context.

### **MARKOR Scale**

The MARKOR scale was introduced by Kohli et al. (1993) and is comparable with Kohli and Jaworski's (1990) behavioural perspective on MO. Kohli et al. (1993) suggest that MARKOR is a measurement of MO and it can assess its psychometric properties. It can also assess the degree to which a firm can engage in: 1) *Multi-departmental market intelligence activities* 2) *disseminate this intelligence vertically and horizontally through both formal and informal channels* and 3) *develop and implements marketing programs on the basis of the intelligence generated* (Kohli, A. K., Jaworski & Kumar 1993, p. 473). The original MARKOR scale has 32 items which are divided into three dimensions: intelligence generation (10 items), intelligence dissemination (8 items) and responsiveness (14 items). MARKOR scale was constructed using non-linear factor analysis and retains only 20 items out of 32 items. MARKOR scale has also been widely employed in various empirical studies such as Antilla (2002), Kara et al. (2005), Liao et al. (2001) and Macedo & Pincho (2006).

### **Customer Orientation Scale**

The Customer Orientation scale was developed by Deshpande, Farley and Webster to measure the impact of firm performance. The 9-item scale was developed from a list of 38 items. The concept and measurement of customer orientation scale was tested in Japan using 138 Japanese executives. Later on, the scale was also used in US, Germany, France, England, India, Vietnam, Thailand, Hong Kong and China.

### **MORTN**

MORTN scale was developed by Deshpande and Farley (1998) by synthesising the three different scales of MKTOR, MARKOR and the Customer Orientation scale mentioned above. Deshpande and Farley (1998) begin by suggesting that market orientation is merely a set of "activities" or a set of behaviours and processes related to continuous assessment and serving of customer needs. Therefore, they emphasise the need to develop a scale like MORTN which can measure the impact of corporate culture and organisational innovativeness on firm performance. Deshpande and Farley (1998) developed MORTN by evaluating the conventional reliability and validity of the three scales on the same sample and making direct comparisons. Their findings showed that MKTOR and MARKOR are highly correlated and the study selected the top 10 items with the best loadings from MKTOR and MARKOR to create their scale of MORTN.

### **Examining MORTN**

MORTN is a comprehensive and effective measurement scale for market orientation. As the latest model in the field, MORTN presents a significant improvement over the three other established models. Deshpandey and Farley (1998) have rigorously examined consequent research on these scales and selected 10 items of proven relevance to create MORTN as a more economic, streamlined and user-friendly model. MORTN has been employed by many recent studies like Baker and Sinkula (2009) and Gonzalez-Benito et al. (2009). The



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methodology used for MORTN has been proven to be robust with cross-cultural comparisons under different circumstances, showing *substantive generalizability*<sup>62</sup> and *cross-national applicability*.<sup>63</sup> This study also utilised it for its empirical research into measuring the impact of market orientation on firm performance among SMEs in Malaysia. MORTN scale is also able to capture all the important information with simple and easy-to-understand terminology. This issue is particularly important as the respondents/samples in the present study are Malaysian SMEs entrepreneurs or owners with varying levels of formal education. They do not necessarily have a marketing background or literacy level to understand the complex sentences that MARKOR and MKTOR scales use. As Nunnally and Bernstein (1994, p. 301) suggest “the scale needs to be “well-phrased, relate to the domain and indicate what is demanded from the respondent”. High level of complexity will reduce the response rate as well as induce bias towards those with a higher level of education (Bennett 2001).

## METHODOLOGY

### *Literature Search*

This study identified relevant scholarly papers through a computerised search of journals such as Journal of Marketing, Journal of Marketing Research, Journal of the Academy of Marketing Science, Journal of International Business Studies, European Journal of Marketing and Journal of Global Marketing.

### *The Survey Sample*

The Malaysian Census on Establishment and Enterprises conducted in 2005 found that 99.2% of business establishments in Malaysia re SMEs. The SME Info Portal<sup>64</sup> is a reliable public website that lists registered SMEs from all business sectors including manufacturing, manufacturing related services, mining and quarrying, services (including ICT), construction, primary agriculture and others<sup>65</sup>.

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<sup>62</sup> According to Deshpande and Farley (1998), substantive generalizability refers “to the work whether the scales are designed to measure broadly similar concepts, behave similarly under a fixed set of conditions-for example whether they relate in a similar manner to Performance of a comparable set of firms”.

<sup>63</sup> According to Deshpande and Farley (1998), cross-national applicability refers “to measurements developed in one national cultural setting may not provide reliable measurements in others. To establish this aspect of international generalizability, we examine measures of reliability associated with applications of the scales in a dozen countries”.

<sup>64</sup> SME Info Portal is also an interactive website that is linked with relevant government agencies (i.e. SME Corp. Malaysia, Ministry of International Trade and Portal and Official Malaysian Government Portal). It provides information on current trends, support functions, events, news and promotions to Malaysian SMEs.

<sup>65</sup> Others refer to a category which does not fit to any other listed category.



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The study selected SME operators in the service industry (including ICT), registered with the SME Malaysian Business Directory on the website as its population sample. The study showed a preference for firms in the service sector in order to fit with contemporary marketing thought and choose an industry that showed dynamism in marketing (Coviello et al. 2002; Day & Montgomery 1999; Gronroos 1994). There were 5423 SMEs (11 July 2010) under the services (including ICT) category on the website. A random sampling method was used and 1500 SMEs from this list were selected for the study by using a table of random numbers. Since the study was focussed on firm management and firm performance, the study demanded that the respondents must be from higher levels of the management hierarchy. Therefore the questionnaire developed for the study included a demographic question related to the position of the respondent in the company. Some of the responses to the questionnaire were from workers who were replying in lieu of their absent managers or owners; the researchers excluded all such respondents who were not from higher level management. This technique is known as purposive sampling; characterised by the use of judgement and a deliberate effort to obtain representative samples by including presumably typical areas or groups in the sample (Kerlinger and Lee 2000, p. 179). This method of selecting respondents is also based on individual perception of organisational performance which has been commonly used in previous research such as Denison and Mirsha (1995) and Carmeli and Tishler (2004).

## Data Collection

Data collection for the study was conducted from mid-November 2010 to mid-January 2011. The owners or entrepreneurs of the selected firms were contacted by mail and informed about the nature of the study; they were requested to complete and return the survey questionnaire in a self-addressed, stamped return envelope. The package that was sent out included the survey questionnaire, the ethics approval letter from Victoria University Human Research Ethic Committee and letter of support from an influential government agency (SME Corp. Malaysia). Since surveys of SMEs are known for their low response rates (Suprato et al. 2009), it was hoped that a letter of support from SME Corp. Malaysia would encourage the maximum number of SMEs to respond. The selected SMEs were expected to return the survey questionnaires within a 4-week period (from 20<sup>th</sup> November 2011 to 20<sup>th</sup> December 2011). Since the response rate was not encouraging and only 32 filled questionnaires were received by 20<sup>th</sup> December 2011, the researcher decided to hire 15 research assistants to help with a follow-up fieldwork. Some students mainly majoring in the degree of Business and Entrepreneurship at the University of Malaysia Kelantan were recruited as research assistants, trained to administer the questionnaire and explain the purpose of the study. The research assistants visited the selected SMEs, collected the completed survey questionnaires and provided additional questionnaires if the firms had lost or misplaced the copy previously mailed to them. At the end of the fieldwork, 528 completed questionnaires were received from the 1500 questionnaires sent out, of which 496 were collected by the research assistants and 32 were the earlier questionnaires returned by mail. Out of the 528 questionnaires, only 473 questionnaires were usable for analysis. The other 55 survey questionnaires were not usable due to two reasons: 1) more than 10 questions i.e. 15% of the questionnaires were unanswered. There were 18 such questionnaires that were excluded. 2) The study required



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respondents to be an owner, CEO, or top level personnel and respondents whose profile did not fit this criterion were eliminated. 37 respondents who answered the questionnaires were low and mid-level staff members like cashiers, receptionists and technicians. As a result, the response rate for the returned questionnaires usable for analysis was 31.5%. This is above the average of 20% for most other empirical studies (Young 1996). The better result of this study can be attributed to the employment of research assistants to administrate the survey questionnaire. Table 2 below summarises the final data available after the selection process.

**Table 2: Available data after the selection procedure**

| Respondent (Firms)<br>(SMEs Info Portal Website, 2010)           | Number     | Percentage   |
|--|------------|--------------|
| Population of database<br>(Services including ICT)               | 5423       | 100%         |
| Sampling frame<br>(from the population of database)              | 1500       | 27.65%       |
| Total response<br>(from the sampling frame)                      | 528        | 35.2%        |
| Non usable response<br>(from the total response)                 | 55         | 10.42%       |
| <b>Usable response<br/>(usable response from sampling frame)</b> | <b>473</b> | <b>31.5%</b> |

## RESULTS

SPSS version 17 was used to analyse the data through methods such as correlation analysis, reliability analysis and validity analysis. Before running the analysis, missing data was treated using estimation-maximization in the SPSS. This detected the outliers through Mahalanobis distance centre and 7 observations were found to have fallen beyond the percentile of 120<sup>th</sup> which were then removed from the study. As a result, 466 respondents were retained for the analysis. The correlation analysis of MORTN scale is shown as Table 3 below:

**Table 3: Correlation Matrix (Actual MORTN Items)**

|     | QC1   | QC2   | QC3   | QC4 | QC5 | QC6 | QC7 | QC8 | QC9 | QC10 |
|-----|-------|-------|-------|-----|-----|-----|-----|-----|-----|------|
| QC1 | 1     |       |       |     |     |     |     |     |     |      |
| QC2 | 0.667 | 1     |       |     |     |     |     |     |     |      |
| QC3 | 0.698 | 0.662 | 1     |     |     |     |     |     |     |      |
| QC4 | 0.573 | 0.592 | 0.646 | 1   |     |     |     |     |     |      |



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|      |       |       |       |       |       |       |       |       |       |   |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---|
| QC5  | 0.358 | 0.410 | 0.279 | 0.346 | 1     |       |       |       |       |   |
| QC6  | 0.608 | 0.558 | 0.659 | 0.699 | 0.233 | 1     |       |       |       |   |
| QC7  | 0.408 | 0.443 | 0.343 | 0.357 | 0.486 | 0.306 | 1     |       |       |   |
| QC8  | 0.471 | 0.497 | 0.416 | 0.380 | 0.551 | 0.350 | 0.767 | 1     |       |   |
| QC9  | 0.511 | 0.512 | 0.636 | 0.643 | 0.210 | 0.721 | 0.268 | 0.291 | 1     |   |
| QC10 | 0.465 | 0.533 | 0.399 | 0.422 | 0.478 | 0.458 | 0.663 | 0.649 | 0.426 | 1 |

### Principal Component Analysis

An analysis of principal component factoring was conducted to examine the factor structure of MORTN measurement scale by Deshpande and Farley (1998). As mentioned earlier, MORTN was derived from three different scales namely MARKOR by Kohli et al. (1993), Customer Orientation by Deshpande and Farley (1993) and MKTOR by Narver and Slater (1990). MORTN measurement scale consists of 10 items synthesised from 44 items from these three different scales. The 10 items resulted from the highest loadings on the first factor, which is highly related with customer focus and also the main idea of market orientation. The criteria used to establish the number of common factors to be retained included eigenvalue >1, the scree test, the amount of common variance and the conceptual interpretability of the factor structure. The analysis using the above criteria resulted in two factors which accounted for 70.321% of common variance. The component correlation matrix,  $r = 0.479$  and KMO Measure of Sampling Adequacy is 0.897. Table 4 shows the oblimin rotated factor matrix for the MORTN construct.

**Table 4: Oblimin Rotated Factor Matrix (Actual MORTN Items)**

| Items | Component |   |
|-------|-----------|---|
|       | 1         | 2 |
|       |           |   |



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|  |      |      |
|--|------|------|
| QB1: Continually monitor performance to find new ways to improve customer satisfaction | .689 |      |
| QB2: Freely communicate about customer experience with the staff                       | .628 |      |
| QB3: Understanding of customer's need as part of the strategy                          | .859 |      |
| QB4: More customer focused than competitors  | .822 |      |
| QB5: Conduct survey to assess the quality of products and services                     |      | .761 |
| QB6: Business objectives are driven primarily by customer satisfaction                 | .908 |      |
| QB7: Measure customer satisfaction systematically and frequently                       |      | .902 |
| QB8: Have routine or regular measures of customer service                              |      | .887 |
| QB9: Believe that business exists primarily to serve customers                         | .893 |      |
| QB10: Data on customer satisfaction are disseminated at all levels                     |      | .722 |

Using the principal component analysis, this study found that the scale has two factors. The first factor consists of QB1, QB2, QB3, QB4, QB6 and QB9. The other factor consists of QB5, QB7, QB8 and QB10.

Consequently, this study argues that customer focus, which is the main aspect of market orientation in MORTN (Deshpande and Farley 1998), actually represents two criteria. The first criterion is about customer relationship and the second criterion is about customer management. The first criterion belongs to the first factor consisting of (QB1, QB2, QB3, QB4, QB6 and QB9) while the second criterion belong to the second factor consisting of (QB5, QB7, QB8 and QB10). Literature has emphasised the importance of customer relationship management (i.e. Hoekstra et al. 1999; Lin et al. 2009; Verhoef 2003; Sin et al. 2005) and also customer satisfaction management.

The researchers labelled this first criterion as customer relationship management construct. Customer relationship management reflects the array of strategies used to find, obtain and promote customers to maintain a long-term relationship with the firm (Sin et al. 2005). The items of customer relationship management construct derived from MORTN measurement scale are as below:

- Q1. We continually monitor customers and competitors to find new ways to improve customer satisfaction.
- Q2. We freely communicate information about our successful and unsuccessful customer experiences with our staff.
- Q3. Our strategy for competitive advantage is based on our understanding of the customer's needs.
- Q4. We are more customer-focused than our competitors.
- Q6. Our business objectives are driven primarily by customer satisfaction
- Q9. I believe this business primarily exists to serve customers.



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The researchers labelled the second criterion as manifesting customer satisfaction management. Customer satisfaction management is defined as a standard of how the “total” product or service offered by the firm fulfils customer expectations (Gerson 1993; Hill 1996; Oliver 1997; Vavra 1997). The researchers find that QB5, QB7, QB8 and QB10 belong to the second dimension of customer satisfaction management. The items for customer satisfaction management construct derived from MORTN measurement scale are as below:

QB5: We survey end-users at least once a year to assess the quality of our products and services.

QB7: We measure customer satisfaction systematically and frequently.

QB8: We have regular measures of customer service.

QB10: In this business, data about customer satisfaction is disseminated at all levels on a regular basis.

In general QB5, QB7, QB8 and QB10 reflect on the firm’s ability to manage their customers with an organised system using surveys to measure customer satisfaction. The knowledge gained from that is then shared at all levels in the firm regularly.

### **Preliminary CFA Analysis for New Market Orientation Constructs**

In order to verify the revised MORTN market orientation measurement model, this study conducted a preliminary CFA analysis to examine the interactions between the new model and firm performance. The original scale of MORTN by Deshpande and Farley (1998) has never been verified with CFA analysis or with firm performance. Thus, this study took the initiative to further verify MORTN construct with CFA analysis and validate its relationship with firm performance.

CFA analysis results show that the fit obtained for the new market orientation model is acceptable ( $\chi^2=156.060$ ,  $\chi^2/df=2.738$ ,  $p\text{-value}=0.000$ ,  $TLI=0.876$ ,  $CFI=0.836$ ,  $RMSEA=0.061$ ), as shown in Appendix 1. The result of preliminary CFA is also able to confirm the previous argument of this study that MORTN is represented by the two constructs of customer relationship management and customer satisfaction management. Since the key indices of TLI and CFI achieved the cut-off of more than 0.80,  $\chi^2/df$  is less than 3, RMSEA is less than 0.08, no more re-specification of model is necessary.

### **Convergent Validity, Construct Reliability and Discriminant Validity**

As demonstrated in the last section, the CFA conducted on the model and the key indicators shows that the model is fit. However, the results of CFA also need to demonstrate whether the measurement model is valid by showing construct validity (Hair et al. 2006, p. 707). Wee (2010) also suggest that construct validity is very important since the proposed measurement model can only be supported if the construct validity is proven. Construct validity is defined as the ‘*extent to which a set of measured items actually reflects the theoretical latent construct those items are designed to measure*’ (Hair et al. 2006, p. 708). Construct validity can be assessed by convergent validity, discriminant validity, nomological validity and face validity. This study assesses the construct validity through convergent validity and



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discriminant validity (as shown in Table 5). In determining the discriminant validity, the value of construct validity plays a significant role.

First of all, the convergent validity was appraised for all the entire item measures. The analysis of convergent validity is important to ensure that the construct converges or congregates with the other constructs. There are a few ways of evaluating convergent

validity, most popular being the method of calculating the size of factor loadings. The standardised loading estimate should be 0.50 or higher in order to determine if the items are converging at some common point. The other method of assessing convergent validity is through *t*-values which is representing by the critical ratio. It is suggested that a critical ratio 1.96(+/-) indicates statistical significance (Segar, 1997; Byrne, 2001) and shows a relationship exists between the observed items and their latent constructs (Bollen, 1989; Koufteros, 1999). Convergent validity can also be assessed according to variance extracted (AVE) and construct reliability (CR). AVE is defined as ‘the mean variance extracted for the items loading on a construct’ (Hair et al. 2006, p.709). Scholars suggest that a VE value of 0.5 or higher signifies satisfactory convergence. On the other hand, CR is ‘calculated from the squared sum factor loadings ( $L_i$ ) for each construct and the sum of the error variance terms for a construct ( $e_i$ ) (Hair et al. 2006, p.710). Table 5 shows that all the items have a standardised loading estimate exceeding 0.50 and a critical ration exceeding 1.96(+/-).

**Table 5: Parameter Estimates of Items**

| Constructs                             | Items                                  | Average Variance Extracted (AVE) | Construct Reliability (CR) |
|--|--|----------------------------------|----------------------------|
| Market Orientation (MO)                | CR<br>CM                               | 0.58                             | 0.85                       |
| Customer Relationship Management (CRM) | QB1<br>QB2<br>QB3<br>QB4<br>QB6<br>QB9 | 0.63                             | 0.90                       |
| Customer Satisfaction Management (CSM) | QB5<br>QB7<br>QB8<br>QB9               | 0.62                             | 0.81                       |



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**Table 6: Average Variance Extracted and Construct Reliability**

|                                  |     |     | Estimate | S.E.  | C.R.   | P   | Standardised estimate |
|----------------------------------|-----|-----|----------|-------|--------|-----|-----------------------|
| Market Orientation               | <-- | FP  | 0.590    | 0.065 | 7.580  | *** | 0.591                 |
| Customer Satisfaction Management | <-- | MO  | 1.000    |       |        |     | 0.782                 |
| Customer Relationship Management | <-- | MO  | 0.736    | .102  | 7.211  | *** | 0.783                 |
| QB6_CUSTOMER_SATISFACTION        | <-- | CR  | 1.021    | .054  | 18.961 | *** | 0.739                 |
| QB4_FOCUS                        | <-- | CR  | 1.105    | .066  | 16.664 | **  | 0.734                 |
| QB3_UNDERSTANDING                | <-- | CR  | 1.168    | .073  | 16.055 | **  | 0.849                 |
| QB2_EXPERIENCE                   | <-- | CR  | 1.106    | .072  | 15.287 | **  | 0.797                 |
| QB1_MONITOR                      | <-- | CR  | 1.214    | .083  | 14.946 | **  | 0.824                 |
| QB10_DATA                        | <-- | CSM | 1.000    |       |        |     | 0.817                 |
| QB8_ROUTINE                      | <-- | CSM | 1.067    | .055  | 19.341 | **  | 0.918                 |
| QB7_SYSTEMATIC                   | <-- | CSM | 1.001    | .058  | 17.376 | **  | 0.826                 |
| QB5_SURVEY                       | <-- | CSM | 0.744    | .059  | 12.696 | **  | 0.597                 |
| QI1_PERFORMANCE (SALES REVENUE)  | <-- | FP  | 1.000    |       |        |     | 0.826                 |
| QI2_PERFORMANCE (INVESTMENT)     | <-- | FP  | 1.146    | .053  | 21.584 | **  | 0.886                 |
| QI3_PERFORMANCE (ASSETS)         | <-- | FP  | 1.076    | .051  | 20.895 | **  | 0.851                 |
| QB9_LOYALTY                      | <-- | CR  | 1.000    | .041  | 25.997 | **  | 0.697                 |



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## DISCUSSION AND CONCLUSION

This study makes a revision on the model of market orientation measurement model of MORTN established by Deshpande and Farley. It suggests that the measurement model use the same scale but divide it into two dimensions; customer relationship management and customer satisfaction management. MORTN was based on customer concept as a whole but the newly refined scale suggests that the customer concept of market orientation is actually divisible into the two components mentioned above. There are also a few covariances among the items but under the same construct indicating that the items are converging at the same point. However, it is suggested that as long as the covariance among items is within the same construct, it is acceptable. This study still accepts the definition of MORTN by Deshpande and Farley (1998 p. 226) as *the set of cross functional processes and activities directed at creating and satisfying customers through continuous needs-assessment*. But it argues that this new revised scale of market orientation provides a more robust and efficient framework to capture the level of market orientation in a firm.

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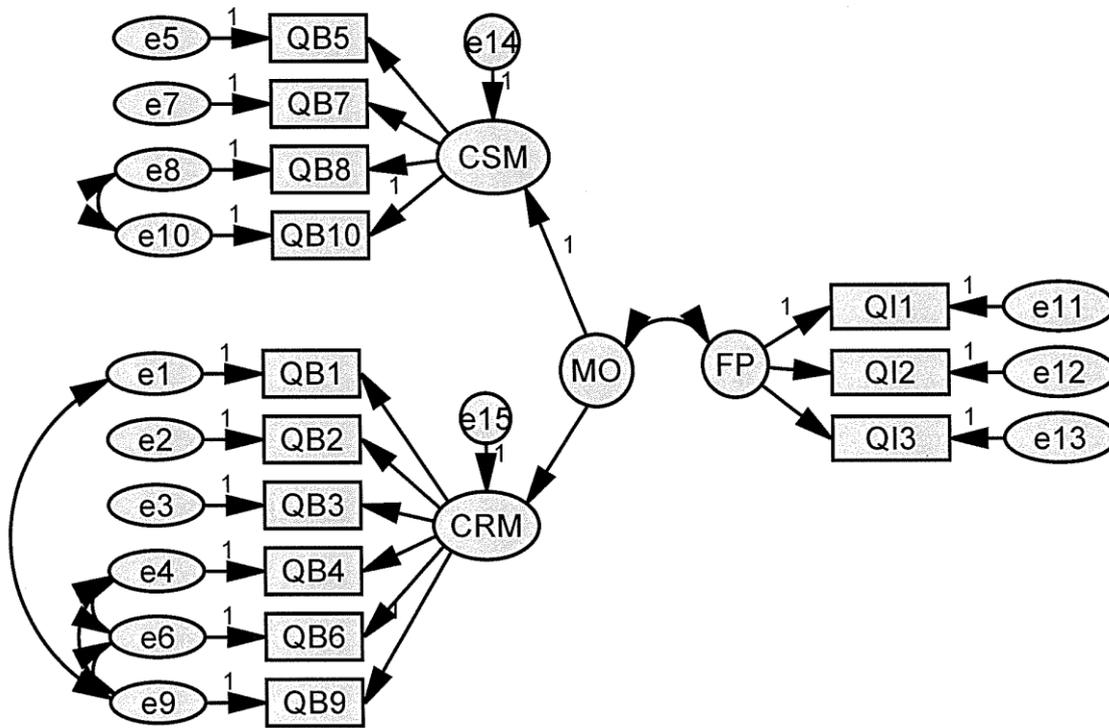
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**Appendix 1: Confirmatory Factor Analysis**



**Model Fit Summary**

**CMIN**

| Model              | NPAR | CMIN     | DF | P    | CMIN/DF |
|--------------------|------|----------|----|------|---------|
| Default model      | 34   | 156.060  | 57 | .000 | 2.738   |
| Saturated model    | 91   | .000     | 0  |      |         |
| Independence model | 13   | 3022.500 | 91 | .000 | 33.214  |

**RMR, GFI**



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| Model              | RMR  | GFI   | AGFI | PGFI |
|--------------------|------|-------|------|------|
| Default model      | .088 | .948  | .918 | .594 |
| Saturated model    | .000 | 1.000 |      |      |
| Independence model | .604 | .774  | .736 | .663 |

### Baseline Comparisons

| Model              | NFI<br>Delta1 | RFI<br>rho1 | IFI<br>Delta2 | TLI<br>rho2 | CFI   |
|--------------------|---------------|-------------|---------------|-------------|-------|
| Default model      | .772          | .687        | .842          | .876        | .836  |
| Saturated model    | 1.000         |             | 1.000         |             | 1.000 |
| Independence model | .000          | .000        | .000          | .000        | .000  |

### Parsimony-Adjusted Measures

| Model              | PRATIO | PNFI | PCFI |
|--------------------|--------|------|------|
| Default model      | .731   | .564 | .611 |
| Saturated model    | .000   | .000 | .000 |
| Independence model | 1.000  | .000 | .000 |

### NCP

| Model              | NCP     | LO 90   | HI 90   |
|--------------------|---------|---------|---------|
| Default model      | 99.060  | 65.671  | 140.109 |
| Saturated model    | .000    | .000    | .000    |
| Independence model | 605.168 | 525.364 | 692.431 |

### FMIN

| Model              | FMIN  | F0    | LO 90 | HI 90 |
|--------------------|-------|-------|-------|-------|
| Default model      | .336  | .213  | .141  | .301  |
| Saturated model    | .000  | .000  | .000  | .000  |
| Independence model | 1.469 | 1.301 | 1.130 | 1.489 |

### RMSEA

| Model              | RMSEA | LO 90 | HI 90 | PCLOSE |
|--------------------|-------|-------|-------|--------|
| Default model      | .061  | .050  | .073  | .053   |
| Independence model | .129  | .120  | .138  | .000   |



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## AIC

| Model              | AIC     | BCC     | BIC     | CAIC    |
|--------------------|---------|---------|---------|---------|
| Default model      | 224.060 | 226.171 | 364.963 | 398.963 |
| Saturated model    | 182.000 | 187.650 | 559.121 | 650.121 |
| Independence model | 709.168 | 709.975 | 763.042 | 776.042 |

## ECVI

| Model              | ECVI  | LO 90 | HI 90 | MECVI |
|--------------------|-------|-------|-------|-------|
| Default model      | .482  | .410  | .570  | .486  |
| Saturated model    | .391  | .391  | .391  | .404  |
| Independence model | 1.525 | 1.353 | 1.713 | 1.527 |

## HOELTER

| Model              | HOELTER<br>.05 | HOELTER<br>.01 |
|--------------------|----------------|----------------|
| Default model      | 226            | 253            |
| Independence model | 68             | 75             |



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