



UNIVERSITI PUTRA MALAYSIA

**FACTORS INFLUENCING GROWTH OF ENTREPRENEURIAL
VENTURES IN MALAYSIA**

LIM LI YEN.

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**FACTORS INFLUENCING GROWTH OF ENTREPRENEURIAL
VENTURES IN MALAYSIA**

By

LIM LI YEN

**Thesis Submitted to the Graduate School of Management,
Universiti Putra Malaysia, in Fulfillment of the
Requirements for the Degree of Doctor of Philosophy**

February 2007



DEDICATION

This thesis is dedicated to:

My Parents, Mr & Mrs Lim Hong Chai

My husband, Zach

My children, Josiah and Jordan, who are the pride and joy in my life



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

FACTORS INFLUENCING GROWTH OF ENTREPRENEURIAL VENTURES IN MALAYSIA

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February 2007

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As a developing nation, the growth of successful small-medium enterprises (SMEs) in Malaysia plays a very crucial role in the improvement of the country's economy and unemployment issues. This study is conducted to identify the success factors of founding entrepreneurs which contributes to venture growth, specifically, the relationship between venture growth and the entrepreneurs' personal initiative and human capital, the areas of competencies to be focused on, and the effectiveness of support programs provided by the government.

One hundred (100) CEOs of entrepreneurial ventures are selected from the Enterprise 50 database to participate in the research through the convenient and snowballing sampling methods. Survey questionnaires are used to gather information for quantitative data, whilst qualitative data are obtained from interviews. The reliability of the questionnaire is tested using Cronbach's alpha and factor analyses are conducted to categorize the competencies. The relationships between the various constructs are examined using nonparametric statistical analysis,



namely, Binary Logistics Regression, Spearman's rho, Mann-U test and Kruskal Wallis test.

The study finds that there is positive significant relationship between venture growth and entrepreneurs who have personal initiative and working experience and who are focused on specific competency areas within operations, finance, and human resources. The study also discovers that there is significant negative relationship between venture growth and entrepreneurs who have high levels of education, and parents who owned business. In operations, founding entrepreneurs are found to be concerned with competitive strategies planning and the improvement of product and services. Raising capital from banks and institutions is the only area of concern in finance. In human resources (HR) the areas considered important are recruiting and retaining employees; HR policies and compensation plan; training and development; delegating and relinquishing control; developing performance appraisal; and motivating employees. Marketing is found to have a significant negative relationship with venture growth. The study reveals that there is no significant relationship between social network support, government support programs and venture growth.



Abstrak tesis dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

FAKTOR-FAKTOR MEMPENGARUHI PERTUMBUHAN SYARIKAT-SYARIKAT USAHAWAN DI MALAYSIA

Oleh

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Sebagai sebuah negara yang membangun, pertumbuhan industri kecil dan sederhana (IKS) yang berjaya di Malaysia memainkan peranan yang sangat penting di dalam meningkatkan ekonomi negara dan menangani isu pengangguran. Kajian ini dijalankan untuk mengenalpasti faktor-faktor kejayaan oleh usahawan dalam menyumbang kepada usaha pertumbuhan terutamanya hubungkait antara usaha pertumbuhan dan inisiatif peribadi usahawan dan modal insan, bidang kecekapan yang perlu difokuskan, dan keberkesanan program-program sokongan yang diberikan oleh kerajaan.

Seramai seratus (100) orang Ketua Pegawai Eksekutif (CEO) daripada syarikat-syarikat usahawan telah dipilih daripada pangkalan data Enterprise 50 untuk menyertai kajian ini dengan menggunakan cara yang mudah dan kaedah persampelan “snowballing” untuk menjayakan penyelidikan ini. Untuk data kuantitatif, borang soal selidik digunakan sementara kaedah temuduga dijalankan untuk mengumpul data kualitatif. Tahap kebolehppercayaan borang soal selidik diuji

dengan menggunakan “Cronbach’s alpha”. Faktor analisis dikendalikan untuk mengkategorikan tahap kecekapan. Hubungkait antara idea yang dibina diuji dengan menggunakan analisis statistik bukan parametrik iaitu “Binary Logistics Regression”, “Spearman’s rho”, ujian “Mann-U”, dan ujian “Kruskal Wallis”.

Kajian ini menunjukkan terdapat hubungan positif yang nyata di antara usaha pertumbuhan dan usahawan yang mempunyai inisiatif peribadi, pengalaman kerja, memfokus kepada kebolehan yang spesifik dalam bidang operasi, kewangan, dan sumber manusia. Kajian ini juga mendapati bahawa terdapat hubungan negatif yang nyata antara usaha pertumbuhan dan usahawan yang mempunyai tahap pendidikan yang tinggi dan latar belakang keluarga yang mempunyai perniagaan sendiri. Di dalam operasi harian, usahawan yang kukuh didapati menekankan persaingan dalam perancangan strategik dan peningkatan produk dan pekhidmatan. Peningkatan modal daripada pihak bank dan institusi lain merupakan satu-satunya keutamaan di dalam kewangan, manakala sumber manusia; pengambilan dan mengekalkan pekerja; polisi sumber manusia dan pelan pampasan; latihan dan pembangunan; pengagihan dan pelepasan kawalan; membangunkan penilaian prestasi; dan akhir sekali memberikan motivasi kepada pekerja adalah sangat penting. Pemasaran didapati mempunyai hubungan negatif yang sangat nyata. Kajian ini juga menunjukkan bahawa tiada hubungan yang nyata antara sokongan rangkaian sosial, program-program sokongan kerajaan dan usaha pertumbuhan.

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I certify that an Examination Committee met on **December 15, 2006** to conduct the final examination of **Lim Li Yen** on her **Doctor of Philosophy** thesis entitled "**Factors Influencing Growth of Entrepreneurial Ventures in Malaysia**" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

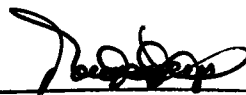
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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



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LISTS OF ABBREVIATIONS

| | |
|-------------|--------------------------------------|
| CAGR | Compounded Annual Growth Rate |
| CEO | Chief Executive Officer |
| HC | Human Capital |
| PI | Personal Initiative |
| SMEs | Small Medium Enterprises |
| VG | Venture Growth |



CHAPTER 1

INTRODUCTION

According to Dun and Bradstreet and the Small Business Administration, in the United States, it was reported that the failure rate of new firms is 40% by the end of the first year, 60% by the end of the second year, and 90% by the end of the tenth year. The statistic is clear that only 10% of the start-ups survived beyond the 10 year mark (Timmons, 1994). In Malaysia, about 79,310 businesses were discontinued during the year 2002 (CCM, 2002) and the numbers continued to increase following the fall of local high tech start-ups. This phenomenon happened because the entry level and the risk of high tech start-ups are very low, as all it takes is only a website and a financial loan. Therefore, within a short time frame after the introduction of the Internet, many new start-ups mushroomed due to the simplicity and convenience of starting a business in the cyberspace. After the Internet bubble bursts, many of these companies virtually went out of business in a matter of weeks. But the statistics did not hamper the entrepreneurial spirit of the young local managers or potential entrepreneurs, as hundreds and hundreds of new businesses are being created each year hoping to grow into large enterprises. Drucker (1985) described this as a shift from a managerial to an entrepreneurial economy.

Businesses play a very crucial role in the development of Malaysia's economy and unemployment issue. Nevertheless, being a developing nation, SMEs should be the main focus for Malaysia; after all, the economy of the United States was built on SMEs. The 2000 Census by the Malaysian Department of Statistics (DOS)



enumerated a total of 20,455 establishments in the manufacturing sector of which 18,271 or 89.8% were SMEs. The largest number of establishments was in the textiles and apparel sector which account for 16.7% of the total, followed by food and beverages. The Census also captured a total of 192,527 establishments in the services sector, of which 186,428 or 96.8% were SMEs. SMEs in both sectors account for 204,699 enterprises or 96.1% of the total. Eighty-eight percent of the companies in the services sector were in the distribution line (retail and wholesale).

In the year 1995, the government established a ministry for the entrepreneurs – The Ministry of Entrepreneur Development and this clearly demonstrated the importance placed by Malaysian government on entrepreneurship and entrepreneur development (Ariff and Abubakar, 2003). Undoubtedly, the Malaysian government pays extra emphasis on ventures that are growing or currently operating successfully.

Nevertheless, many enterprises often managed to grow up to a certain point but later on fizzled out because of their inability to capitalize on further market opportunity (Hofer and Charan, 1996). There are many reasons why promising start-ups failed or did not grow, such as new technologies, new competitors, new markets, new management teams and new channels of distribution. Clearly, there are different factors influencing the survival and growth rate of a new start-up. Thus, it is crucial to identify the factors contributing to entrepreneurial success especially at the growth stage. Whether an enterprise successfully reaches growth-stage depends on the learning process of both the entrepreneur and the company. The transition is slow

and must be handled carefully as new strengths and competencies need to be developed by the entrepreneur and the company, while preserving the existing ones.

In previous studies, it has been suggested that the founding entrepreneurs should be replaced by professional managers, as they may have difficulty in managing organizational growth as well as professional managers (Chandler, 1977). Studies have examined that “after the starting difficulties have been overcome, the most likely causes of business failures are the problems encountered in the transition from a one-person, entrepreneurial style of management to a functionally, organized, professionally managed workforce and team” (Hofer and Charan, 1996). Therefore, because of this conventional belief, investors often demand the removal of the founding entrepreneur of the start-up company to be replaced by either a professional manager or a team of management experts during its venture growth, to ensure that the company has a successful transition to growth-stage and able to overcome challenges commonly faced during the growing phase.

On the other hand, Willard, Krueger and Feeser’s (1992) study on 155 manufacturing companies found no evidence that professional managers performed better than the original founders. Their discoveries confirmed one of the most quoted incidents at Apple Computer. Founder Steve Jobs was replaced in 1985 and after the removal; the professional managers led the company for twelve years to the edge of bankruptcy. Steve was brought back to the company in 1997 and the company began prospering again. Willard, Krueger and Feeser (1992) found that many founders could learn how to manage growth effectively, and such finding encourages

