Entrepreneur Characteristics and Firm Performance: A Study on Malaysian Food Manufacturing Industry SME’s

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Abstract: This research investigates the relationship between entrepreneurs’ characteristics and strategic orientation choices towards their business performance among SMEs food manufacturing industry in Malaysia. The existence theory suggests that entrepreneurs’ internal personality plays an important role in determining the performance of their firms. Data were collected through a national survey from owners and senior managers of small-medium-sized Malaysian companies. This paper discusses different types of entrepreneurs’ characteristics with specific analysis on the influence of entrepreneurs’ characteristics on firm’s performance.

Keywords: entrepreneurs’ characteristics; food manufacturing industry; firm performance; SMEs.

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1. INTRODUCTION

Entrepreneurship is a widely renowned concept in developing countries. It is viewed as one of the major contributors towards the economic growth of a nation. The small and medium enterprises (SMEs) industry is categorized under entrepreneurship and is assumed to play a vital role in a country’s development [1]. The crucial aspects of success factor for this role were many studied elsewhere, and human factor was one of the many factors found which brought a big impact to the success of a business firm.

1.1. Malaysian SMEs

During the world’s economic crisis in 1990’s, SMEs became more visible where large companies started to retrench their workers but the small companies were able to maintain their levels of employment and production. SMEs were not influenced by the economic crisis. This indicates that SMEs’ entrepreneurs are those who largely contribute towards increasing diversity, creating innovation and employment opportunity, sustaining competitiveness, and generating novel ideas in corporate setting for both developed and developing nations [2] [3].

Since the year 2000 onwards, the average of economic growth in Malaysia was approximately 3% to 5% per year. However, despite the significant contributions made by the entrepreneurs, the Malaysian SMEs have been facing a number of unfavorable issues, such as low level of innovation and technology, low development capability, low research and development, and lack of working capital during the early phase of new business operation [1] [4]. This situation does not help to boost the firms’ level of performance [5] [6]. Lack of consistency in successful entrepreneurial factors is also detrimental for firms to sustain superior performance [7]. Further, this may affect policy formulation and implementation in the SMEs’ operations planning.

This research attempts to investigate the contribution of entrepreneurs’ entrepreneurial characteristics in determining firm’s performance in Malaysia by conducting survey in several SMEs in food manufacturing industry. First, this paper will appraisals the framework and theories supporting entrepreneurs’ entrepreneurial characteristics to a number of research hypotheses. Second, it will follow by research methodology and third, the results are presented and discussed along with managerial implications. The conclusions on the basis of the research findings, limitations of study, and recommendations for upcoming research will be presented at the last part.

1.2. SMEs in the Malaysian Food Manufacturing Industry (FMI)

SMEs are defined differently in different parts around the world, and there is not only just one definition that has been widely accepted [8] [9]. The Malaysian SMEs are categorized into three groups: micro-, small-, and medium-sized. SMEs could be defined by their size, revenues or sales turnover, as well as number of assets and full-time employees; criteria that make SMEs distinguishable from large and small corporations or

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microenterprises [10]. There are three main sectors of Malaysian SMEs, namely agriculture, business, and manufacturing.

Diversity in the Malaysian FMI could be due to Malaysia’s multi-cultural environment which provides a vast range of Asian food. The FMI is predominantly a Malaysian-owned industry with the presence of food products worth around US$3.5 trillion of global retail sales. It is a projected annual growth at the rate of 4.8% and expected to reach US$6.4 trillion by the year 2020 [11]. SMEs dominate the Malaysian FMI and compose a heterogeneous group of market players. The criteria used to define SME are based on the number of full-time employees and the annual sales turnover. For example, for a Malaysian manufacturing firm to be classified as an SME, the annual sales turnover should not exceed RM50,000,000 and the number of full-time employees should not exceed 150 [12].

The companies of food and beverage are competing with their competitors on the basis of distributing a finished, quality and desirable product better. However, small food and beverage manufacturers are more effective at beating out their competition in local or regional markets by developing more popular products and ensuring their processes are up-to-date and efficient. Consequently, looking at the SMEs growth in the context of Malaysian food manufacturing industry, it have significant impacts on the entire processing chain of agricultural production, and food processing up to the distribution of food to end consumers in the chain of processing food products. Alam claim that along the process, the SMEs might encounter issues with internal and external environments, institutional, availability of both tangible and intangible resources, organizational and managerial and others that most likely will affect the growth of the firms [13]. Additionally, there are nine challenges faced by Malaysian SMEs, but three of them are mostly recognized by most studies: access to finance, human resource constraints, and lack of knowledge and information [14] [15] [16].

1.3. Entrepreneurs’ Entrepreneurial Characteristics

There is a number of research have been done to provide empirical evidence regarding the attributes of entrepreneurship in terms of behavioral and social-psychological that emphasize on personality traits. The psychological aspect is predominantly focusing on the entrepreneurial characteristics of entrepreneurs, and social-psychological aspect refers to the external forces and factors that stimulate entrepreneurial activities by considering entrepreneurship in a broad social environment. Environment factor significantly affect one personal emotion character [17]. Meanwhile, the behavioral aspect emphasize on understanding the behavior, attitude, previous experience, and management skills to determine entrepreneurial success [1]. The human capital of firms, that is the owners or the managers, largely contributes towards the growing success of small businesses [18].

The establishment of businesses requires entrepreneurs to bring a unique set of resources including human capital, experience, skills, and personality traits [19]. Penrose argued that human capital, which includes experience, skills, and other entrepreneurial characteristics of the entrepreneurs are the firms’ key resources [20]. Resources-based view (RBV) theory, or also known as theory of firm states that every organization has a limited amount of resources. A few of the resources are unique, rare, valuable, and not imitable, making them difficult to be copied by competitors. In this case, such valuable resources enable the firms to gain competitive advantage [20] [21] [22] [23]. In addition, most researchers like Hambrick and Mason examined the characteristics of entrepreneurs by using the upper echelon theory (UET) [24]. This theory indicates that a firm is regarded as its owner’s reflection and an extension or influence of demographic characteristics on the strategic choices and firm’s performance [25]. The UET can be considered as RBV’s special case that enhances the process of resource allocation and the formulation of strategies. Child and Francis used this theory to recognize the impact of entrepreneurs’ entrepreneurial characteristics on firm’s performance [26].

Moreover, Switzer and Huang, and Adams et al. showed that characteristics of entrepreneurs and managers directly impact firm’s performance in studies conducted by them [27] [28]. Seymour and Ketchen et al. criticized and argued on the direct link between firms’ resources and performance which has lack subjectivity. This is because entrepreneurs or managers are required to deploy firms’ resources in the most effective way in order to gain maximum benefits [29] [30].

A large number of studies have attempted to recognize the main characteristics of entrepreneurs in the process of starting up new businesses and for the managers to effectively run the companies [19]. According to Yunus and Kauer et al. managers with high level of motivation and have clearer corporate objectives tend to make decisions faster [17] [31]. The managers’ cognitive capabilities contribute a lot in increasing the firm’s performance and managerial conducts [32]. Moreover, the managers with higher level of internal locus of control are more probably to become effective [33] and innovative [34]. Previous studies found that the internal locus of control and motivation level are two substantial characteristics of entrepreneurs. These two aspects are able to help firms become more successful than their competitors [35] [36]. However, characteristics should also be studied broadly to provide a holistic picture in regard to the behaviors or attitudes of successful entrepreneurs [37] [38].

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1.4. Entrepreneurs’ Entrepreneurial Characteristics and Firm’s performance

It is evident from recent studies that the characteristics of entrepreneurs and managers are directly impacting firm’s performance [27] [28] [39]. Several studies seek to identify the critical business success factors. It is important for business owners and policy makers to understand the success factors behind the success of businesses. The policy makers can then use the information regarding the failure and success of businesses to create and maintain a stable economy [40]. The present study will consider the entrepreneurs’ characteristics as the critical success factors for business success. Dollinger and Zimmerer and Scarborough summarized the most commonly cited entrepreneur’s characteristics that were suggested by most of researches as critical success factors for the success of businesses [41] [42].

Meanwhile, the present study also adopts the RBV as its framework while considering the characteristics of entrepreneurs as human capital for businesses. This will then be investigated in the context of firm’s performance and strategies. This study considers the investigation of three main characteristics of entrepreneurs which are (i) internal locus of control (ILOC), (ii) need for achievement (NFA), and (iii) need for cognition (NFC). Figure 1 shows the research framework and hypotheses of this study. Three hypotheses tested in this study are as follows:

H1: Internal locus of control (ILOC) is positively related to firm’s performance.
H2: Need for achievement (NFA) is positively related to firm’s performance.
H3: Need for recognition (NFC) is positively related to firm’s performance.

II. METHODOLOGY

The study working suitability sampling, consisting of managers and business owners in the Malaysian SMEs. By following an extensive literature review, the questionnaire was constructed. A pilot study was conducted with 40 respondents containing business owners and academicians in order to check the reliability and validity of the instruments. The respondents were requested to answer on a seven-point scale: 1=strongly disagree, 7=strongly agree – the extent to which he/she agreed with the items in respect to the entrepreneurs’ characteristics. A large-scale survey of final questionnaire was distributed after making a needed revision based on the feedbacks received. The sample frame where the population of SMEs is drawn was gained from a database held by the SME Corporation. These SMEs were operating in the manufacturing industry and they were selected at random. The final pool of SMEs to whom the questionnaires were sent totaled 800.

The target respondents were top-level management, owner or manager, and senior management or middle-level management who have significant amount of experience in running businesses as entrepreneurs [43], who have the supreme vision into these firms’ activities [44], and who have the greatest influence on organizational performance and business formation [24]. The respondents were contacted through face-to-face interviews with 412 response rate, constituting 64% from the total percentage. No significant difference was found, after associating on a number of characteristics of early and late respondents, suggesting that the sample is free from response bias.

The characteristics constructs has been measured by the origin items in the research framework are threefold, and roughly of these items were adopted from previous studies, namely N. Bahari; Zhang and Brunning; Santos-Vijande and Alvarez-González; Sin et al., and Jaworski and Kohli [19] [39] [45] [46] [47]. Other items were originated from research by Wang and Feng; and Richard et al. [48] [49]. It was adapted to
make it suitable for small and medium enterprises (SMEs) industry. Therefore, the operational entrepreneurs’ characteristics of items was generated, namely ILOC, NFA and NFC and firm’s performance.

III. RESULTS AND DISCUSSION

Reliability analysis of all constructs tested in this study have standardized Cronbach’s alpha scores of 0.70 and higher as depicted in Table 1.

TABLE 1. Cronbach’s alpha, means, standard deviations and correlation coefficients

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>A</th>
<th>Mean</th>
<th>SD</th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Need for achievement (NFA)</td>
<td>7</td>
<td>.79</td>
<td>6.09</td>
<td>.99</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Internal locus of control (ILOC)</td>
<td>5</td>
<td>.92</td>
<td>5.76</td>
<td>.95</td>
<td>.69**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Need for cognition (NFC)</td>
<td>4</td>
<td>.98</td>
<td>3.95</td>
<td>1.89</td>
<td>.08**</td>
<td>.10*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4. Firm performance</td>
<td>4</td>
<td>.94</td>
<td>5.08</td>
<td>1.09</td>
<td>.46**</td>
<td>.48**</td>
<td>.07</td>
<td>1</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

Thus, there is evidence for the measurement instrument provided by internal consistency. For each entrepreneurs’ characteristic construct presented by Cronbach’s alpha score which represents the overall scales’ reliability. It has been used similarly by previous studies to measure the ILOC, NFA and NFC and firm’s performance with sufficient validity [49]. Table 1 also shows the means, standard deviations, and correlation coefficients of the stated variables. Hair et al. states that a correlation of 0.90 or higher among variables is a sign of substantial collinearity. The correlation coefficients of item in total are greater than 0.50, indicating that all measurement factors and dimensions have convergent validity [50].

Series of regression analyses were conducted to test the hypothesized causal-effect relationships tested in this study. Table 2 illustrates a multiple regression analysis for entrepreneurs’ characteristics and firm’s performance. The regression equation explained 25% variation in the successful factors of entrepreneurs’ characteristics of entrepreneurs, the higher firm’s performance will be. Therefore, both H1 and H2 are significant. The relationship between NFC and firm’s performance is not significant (β = 0.03, t = .58, sig. 0.56), thus not supporting H3. H3 is then rejected as the NFC was not significant to predict firm’s performance with p = 0.56.

TABLE 2: Results of multiple regressions for entrepreneurs’ characteristics and firm performance

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Direct effect on firm performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for achievement (NFA)</td>
<td>.25***</td>
</tr>
<tr>
<td>Internal locus of control (ILOC)</td>
<td>.30***</td>
</tr>
<tr>
<td>Need for cognition (NFC)</td>
<td>.03</td>
</tr>
<tr>
<td>R²</td>
<td>.26</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>.25</td>
</tr>
<tr>
<td>F-change (sig)</td>
<td>47.73**</td>
</tr>
</tbody>
</table>

**p<0.05, ***p<0.01, (n=412)

IV. CONCLUSION

The criteria for a successful organization has long been studied by scholars yet a comprehensive theory of success is understudied. Generally, an entrepreneur plays a substantial role in determining the firm’s behavior and performance. The difference of the entrepreneurial characteristics of the SME’s owners/managers tended to show no difference in their performances [40]. The reason was that in many aspects, the different entrepreneurial characteristics did not show any direct influence on the firm performance. This study offers empirical support in studying the link between entrepreneurs’ characteristics (inclusive of ILOC, the NFA, and the NFC and the firm’s financial performance. This is found to be consistent with previous research and theory. Penrose stated that the RBV of the firms support the thought that human capital is a source of endowment [20]. Besides, this is in accordance with our findings. In addition, Jones et al. indicated that SME’s owners and managers play a critical role in the victory of their firms [18]. Hansemark and Littenen has been recognized such direct relationship in their literature [35] [36]. Entrepreneurs believe that they can offer the great services and products through innovation and creativity, if they rise intimate understanding of their customers’ needs and wants, thus they have a high level of NFA. Logically, this type of characteristic will increase the firm’s performance. Johnson and Ma said that the entrepreneurs with higher level of NFA are more likely to be successful [52]. Besides that, Carpenter and Golden believed that entrepreneurs who have the tendency to notice
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themselves as having more managerial power and discretion have a high level of ILOC [53]. The optimistic effect of ILOC on firm’s performance is mediated by risk-taking behaviors of entrepreneurs and it’s proven by past research [54]. However, an entrepreneur with a high level of NFC thrives when dealing with difficult problems. Instead, they are aware that to meet the market demand, they must be innovative and proactive. However, in this case, the NFC does not give any progressive effects on performance of firm. This could be because of other factors.

By searching the strategic partner alliances who are endowed with cultivate desirable characteristics or opposite characteristics, it will help to modify the personality-related characteristics [55]. Hansemak also accepted that there are a few of entrepreneurship training programmes can growth participants’ ILOC and NFA [35]. These characteristics have direct and indirect positive impacts on firm’s performance, although it is beyond the scope of this paper to develop specific improvement strategies of those characteristics. However, Spencer et al., believed these characteristics are special leadership competencies worthy of upcoming research because small firms frequently depend on their owner-managers’ leadership skill and strategizing abilities to gain superior firm performance [56].

The conclusions of this study offer a number of significant contributions and implications that are beneficial for both academicians and practitioners. Though the study donates to the body of knowledge by providing statistical evidences in regard to series of dependent relationship related to three different variables encompassing entrepreneurs’ characteristics and firm performance, the ability to simultaneously examine these relationships is valuable for better understanding of the phenomena. Consequently, the measurement model has been developed in this present study is also useful for other researchers. This measurement model can be extended to other contexts of research such as development of other areas of entrepreneurship or being applied in different countries and industries.

REFERENCES


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