



FIFTH INTERNATIONAL CONFERENCE ON MARKETING AND RETAILING (5TH INCOMaR) 2015

Malay owner managers of SMEs: the typology

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Abstract

This study identifies the different classification of Malay owner managers based on the psychological and behavioral factors. The survey comprised sample of 162 small scale SMEs' owners in manufacturing industry, in Malaysia. Rasch Measurement Model was employed for that purpose. The findings indicated that psychological (personal values and self efficacy motivation) and behavioral (entrepreneurial orientations) factors were able to differentiate owner managers into five classification; Exemplar, Competence, Mediocre, Survivor and Poor. The interesting findings serve as a reminder to the Malaysian government to focus on both the psychological and behavioral aspects of owner managers in an effort to improve Malay SMEs businesses.

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Peer-review under responsibility of Faculty of Business Management, Universiti Teknologi MARA

Keywords: Typology, SMEs, entrepreneurial orientation, personal values

1. Background of the study

Research on typology of SMEs, which started in 1962 and continues, has become common research investigating small-scale business owners. As these owners comprise a highly heterogeneous group (Rausch & Frese, 2000), they may have different entrepreneurial behaviors. However, the studies of typologies differ from each other because they use different attributes: demographic characteristics, psychological characteristics, or business strategies. Rauch and Frese (2000) revealed that crafts, people and opportunists have often been differentiated. The work of Smith

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and Miner (1983) detailed the specifics, i.e., how SMEs were divided: craftsman (a blue collar background, had a lower education and no management experience, and they restricted their sources of finance to personal savings, money from relatives, or friends and often had rigid firms); opportunistic entrepreneurs (a middle-class background, a broader education, management experience, they sought new opportunities, developed more innovative and more diverse strategies, delegated more, were proactive, and used many sources of finance); and opportunists (tended to have adaptive firms, had higher growth rates than those of craftsmen). In 1992, Miner and associates have added another type of entrepreneur, the inventor-entrepreneur, who has a certain craftsman-orientation with a high priority placed on product development and patent production.

Miner (1996) categorized business owners into four personality types. The "personal achievers" is similar to the classical entrepreneur as proposed by McClelland (1961). The characteristics are need to achieve, desire to get feedback, planning and setting goals, strong personal initiative, strong commitment towards the venture, internal locus of control, and a belief in personal goals rather than those of others. Interestingly, in the most recent research, Mohd et al. (2015) have found that other than those mentioned personal values, honesty is important to help entrepreneurs to sustain and survive in business.

All these studies focus on either attribute of an entrepreneur: his background or business activity of the entrepreneur. The classifications of entrepreneurs based on the integration of both background (personal characteristics) and practices (or orientations) are necessary for understanding SMEs. Moreover, with these classifications, it is easier for potential entrepreneurs to learn the connection between background attributes and entrepreneurial orientations that would lead to success in business. Chell et al. (1991) used more than one attributes to classify entrepreneurs. They classified 31 firms into personality characteristics, strategies, and demographic attributes. Meanwhile, entrepreneurs classified into prototypical entrepreneurs, caretakers, quasi-entrepreneurs, and the administrator.

The issue with the typology proposed earlier was they were baseless. Instead, the attributes of each category should be based on a theory of entrepreneurship demonstrating psychological and behavioral aspects of SMEs' owners. The attributes should consider psychological, behavioral and economic aspects of entrepreneurs so that each cluster of entrepreneurs projected important aspects of the theory of entrepreneurship and management relevant for understanding entrepreneurs comprehensively. Thus the present study filled the gap; considers the theory of human values and behavior in developing a new typology for modern day entrepreneurs. For this reason, we used values of honesty, hard work, discipline, and loyalty to differentiate entrepreneurs. For behaviors, we used what are commonly used by research - risk taking, proactive and innovativeness.

2. Research Methodology

A cross-section design was used to identify the psychological characteristics of Malay owner managers in Malaysia. The sampling frame was a mailing list of Malay SMEs in the manufacturing industry provided by Majlis Amanah Rakyat (MARA). The Malays were chosen because they comprise the majority population and data base about them is more available compared to the other races. 850 self-reported questionnaires in self-addressed returned envelopes were mailed to randomly selected SMEs from the original 1545 registered SME list. Out of 850 questionnaires distributed by MARA officers of Terengganu, Pahang, Melaka, Johor, Penang, Kedah, Perak, Sabah and Sarawak, only 162 questionnaires came back, representing about 19 percent response rate. The samples were small scale SMEs who have been in business between five to ten years, with number of employees ranging 5 to 50. Small scaled SMEs were chosen because in their context, the owner makes every decision related to business, thus projecting the entrepreneurial orientations more clearly. Firms with less than five years of operation were not selected because they are still struggling to survive. Hence, their entrepreneurial orientations are clearly seen yet as they keep trying to find the right direction or orientation.

2.1. Measurement

There were 4 variables to be measured: Personal values (PV), self-efficacy (SE), and entrepreneurial orientations (EOs). These variables or measures were borrowed and adopted. They were constructed in an instrument called Entrepreneurial Competence Measure (ECM). The whole instrument was regarded as unidimensional because all the items were adopted and constructed to measure the level of entrepreneurial competence with regards to psychological characteristics and entrepreneurial orientations.

3. Analysis and results

The analyses were conducted in two stages. The first stage identified the goodness fit of data, based on the model of Rasch. The second stage attempted to achieve the objectives of the study, i.e., to identify the classification of Malay owner managers based on the psychological and behavioral characteristics of Malay owner managers.

For the first stage, all important data quality tests (z-standard, point measure correlation and data outfit) were conducted. Few items had minor problems of misfit because of all the three important indicators (Z-standard, outfit items, and point measure correlation value), only Z standard showed it was beyond the accepted range. Therefore, the items were not removed. Table 1, in Appendix 1 is evidence of good data; hence fit for the model of Rasch.

Table 1: Summary Statistics of Measured 75 items

	Person						Item					
	Measure	Model Error	Infit MNSQ	Z STD	Outfit MNSQ	Z STD	Measure	Model Error	Infit MNSQ	Z STD	Outfit MNSQ	Z STD
Mean	.56	.11	1.04	.0	1.00	-.2	.00	.08	1.00	-.2	1.00	-.1
S.D	.51	.02	.35	2.3	.35	2.2	.46	.00	.28	2.7	.29	2.6
Max	2.47	.27	2.39	7.3	2.65	7.4	1.32	.07	1.69	5.8	1.72	6.2
Min	-.47	.11	.30	-6.2	.32	-5.9	-.67	.07	.55	-5.2	.56	-4.6
Person Reliability = .94 Cronbach α (KR-20) person raw score = .95 Person Separation = 3.93 S.E. OF Person MEAN = .04						Item reliability = .97 Item separation = 5.66 S.E. OF Item MEAN = .05						

Standardized residuals $n(0,1)$ mean: .01 S.D.: 1.00
12150 data points. log-likelihood chi-square: 17820.37 with 11911 d.f. $p=.0000$

The unidimensionality test verified that the instrument of ECM is unidimensional. The raw variance explained by measures was 45.50%, closely matched the expected 44.80%; thus met the unidimensionality requirement of 40% (Reckase, 1979; Conrad et al., 2011). This is illustrated in Table 2.

Table 2: Standardized residual variance (in Eigenvalue units)

Description	Empirical (%)	Modeled
Variance explained by measures	45.5%	44.8%
Unexplained variance	54.5%	55.2%
Unexplained variance in contrast	4.1%	7.6%

The second stage of analysis was to verify whether Malay business owners are different in terms of their personal values, self-efficacy and entrepreneurial orientations.

Person item map produced from this analysis (could not be displayed as it requires large space) is a ruler that arranges items according to the difficulty level of the tasks (items), and the ability level of persons (owner managers). This means, every person and item has its logit value that represents their ability and classification. The five classifications (groups) are identified by four separation values (refer to Table 1; person separation). Since the purpose of the study is to identify the classifications of SMEs' owner managers based on their entrepreneurial competence, the separations were based on items coded as EO (entrepreneurial orientations), SE (self efficacy) and PV (personal values) that were agreed by most people in each group. For the purpose of understanding their characteristics, the items that were found to describe each group (derived from the map what could not be illustrated) were summarized in Table 3.

With reference to Table 3, the differences between each group is based on how they respond to each item (items that belong to personal values, self- efficacy and entrepreneurial orientations). The first group was called EXEMPLAR. They were called EXEMPLAR because they have almost all good values, the self efficacy and entrepreneurial orientations of a good entrepreneur as suggested by previous research (McClelland, 1961; Miner, 1989; Miner, 2000; Mohd et al., 2015). COMPETENT, being the second group as classified by the ruler, they lacked the value of achievement (stressful when others do better). They were also less reactive to task that they were uncertain to do, less proactive and less risk taking. MEDIOCRE is a group that was found to be located below COMPETENT, possessed personal values of moderate achievement orientation and hard work but innovative. They were not a risk taker. The last group was called SURVIVOR because they survived after the surviving period of five years. Even though they were not as hard work as EXEMPLAR, COMPETENT and MEDIOCRE, their personal value of honesty has made them able to survive. They were neither risk takers nor proactive. However, they were positive with innovation that they reward their workers who were innovative.

Table 3: Typology development of Malay SMEs in Malaysia

GROUP CLASSIFICATION	Personal Values		Self Efficacy		Entrepreneurial Orientation	
	What represent them	What differentiate them (from group below them)	What represent them (from group below them)	What differentiate them (from group below them)	What represent them (from group below them)	What differentiate them
EXEMPLAR	All items of values under study	“VI- stressful when others do better”	All SE items	“make decision under uncertainty”	All 8 items of entrepreneurial orientations	“proactive – respond to unrelated business”, “Risk – invest in unexplored technology”
COMPETENT	All values except item “stress when others did better (VI)”	“HW-work long hours”, “HC-like sharing with others”, “VI-children should be taught to place duty before pleasure”, “L-concern for customer satisfaction”	All items of SE except “work under pressure”	“certainty in reducing risk”	All items of entrepreneurial orientations but “proactive – respond to unrelated bus” & “Risk – invest in unexplored technology” were agreed by some competent only	“proactive – initiate actions, competitors then use new technology” & “proactive – first to introduce new product or service”,
MEDIOCRE	All except for items that were identified to differentiate Exemplar and Competent from others	“H- fail pay debt, feel bad”, “H-if insulted, still patient”, “seldom depend on others (HI)”, “unique (HI)”, “VC-family & kids should stick together”	All except for items that were identified to differentiate Exemplar and Competent from others	“take calculated risks”	All except for items that were identified to differentiate Exemplar and Competent from others	“Innov – utilize new tech”, “innov – emphasize R&D”
SURVIVOR	All except for items that were located within Exemplar, Competent & Mediocre	“VI-no competition not good society”, “VC_accept opinion of others”, “VC_family stick together”, “HI_enjoy being different”, “HW_sacrifice leisure”, “HW_hate lazy”, “VI-competitive situation”, “L-careSociety”, “H-admitFault”, “HW-hateThinkWork”, “L-consumerKing”, “D-postpone”, “C-fearFailure”, “HC-help need family”	All except for items that were located within Exemplar and Competent and Mediocre	“set_mktShare” “do_mktAnalysis” “create_newPdct” “implement new Methods” “strategic Plan” “do financial Analysis” “Create new venture/ideas” “achieve goals”	All except for items that were located within Exemplar, Competent and Mediocre	“Risk- Explore opportunity bravely”
POOR		“HC concern Rival Health”, “HI-to B Unique”, “VC-consult B4 decision”, “D-stick”, “C-aim High”, HC-good Work W Othr”, “VI-do Own Work”, “L-faithful”, “L-loyal To Consumer”, “HC-harmony Import”, “VI compet Must”, “HI-personal Identity”, “C-speak Truth”, “D-accept Weak”, “H-ashamed Pdct Defect”, “H-keep Promise”, L-devote, “H-responsible”, “L-dutiful”, “HC-happy Rival Rewarded”	“define Roles”, (all SMEs’ owners were certain to do this)	Nil	“Innovative in terms of - encourage workers to create ideas” (this is a common practice of all SMEs’owners)	Nil

These findings clearly showed that personal values, self efficacy and entrepreneurial orientations differentiate the SMEs' owners. Classifying SMEs into groups based on their personal values, self efficacy and entrepreneurial orientations are new to the literature of SMEs in Malaysia; thus a new contribution to the field.

4. Implication

An important implication is the interesting findings serve a reminder for the government to focus on the psychological aspects of owner managers as this can improve Malay SMEs businesses. Specifically, this suggests developing programs that could improve their confidence to work under pressure and making decision under uncertainty; making them believe that to be unique and the best are not wrongful in Islam; and building courage and self discipline, which are key values to business success.

The findings also implicated aspects pertaining to managerial. The government, in particular the Ministry of Entrepreneurship, should seek new approach to improve Malay owner managers. This is practical for Survivors, who hold values of collectivism and honesty (common values of Malay owner managers). The concern is how to improve the personal values and self-efficacy of owner managers. Since self-efficacy reflects certainty in performing business related tasks, their confidence is important to be enhanced. This is possible via effective training module that focus on specific skills they are not confident in applying. The discovery of personal values of owner managers and the correct classification of Malay owner managers could help the government to develop the right values and skills for the right group of Malay owner managers. Therefore, in an effort to improve the religious values of Malay owner managers (especially Survivors), the Ministry should continuously provide exposure on the importance of these values to businesses and to daily interaction with customers. They should be exposed to the right concept of the Six Pillars of Faith so that their interpretation of the 6th pillar, that is, to believe in Qada' and Qadar (the principle of divine destiny and determination) will be right. It is very important for them to hold strong belief in and to have the right interpretation of the 6th pillar of faith as this would make them to always become positive and thankful to God for whatever challenge(s) they face. The right interpretation of the 6th pillar in relation to those challenges is that they symbolize TEST and LOVE from God. The test signifies love from Allah because God would never let anything happen without good reason but to teach mankind to be wiser and better. A routine reminder like a circular, on the importance of religious values in business that help generate income, should be given on a regular basis.

5. Limitations

The respondents come from the west coast of Malaysia. Malay SMEs from the east coast may have different values and self efficacy. Thus, a wider geographical area is preferable for the results to be generalized to the population of interest. Consequently, the response rate for this study was not encouraging enough and this can be the basis for the future research. Finally, the small sample size might not be substantive enough for this kind of behavioral research. Moreover, all the respondents were Malays; hence the results of this study cannot be generalized to the entire Malaysian population.

Future research to verify the results of this study can be conducted through cross-cultural and cross-country studies. In addition, attempts to investigate similarities and distinguishing characteristics of owner managers from various nationalities, industries and sizes can also be done in future research. Moreover, those studies can also be based on a broader set of cultural values.

6. Conclusion

This study seeks to determine the typology of Malay entrepreneurs. By using Rasch Model, the researchers are able to identify five types of Malay owner managers in Malaysia. They are Exemplar, Competent, Mediocre, Survivor and Poor. The classifications are based on the values they hold, and their self efficacy and entrepreneurial

orientations. Exemplars, the smallest in number identified from the sample, are those who hold all values of honesty, discipline, hard work, and loyalty. They are also highly individualistic, but collectivistic. With high level of self efficacy to perform tasks related to business, this will make them to be proactive, risk taking and innovative. Competent owner managers are less individualistic and less proactive compared to Exemplar. The differences between these groups are in terms of their individualistic values, level of self efficacy and proactive. The higher they are in the rank, the more individualistic they become, the higher self efficacy they have, and the more proactive and innovative they are. The common values held by all Malay owner managers are loyalty, honor and collectivist. The common tasks they are confident to perform are to plan strategy, create new venture and new products, achieve goals, define roles, expand business and set market share. Most of them are quite innovative but not many are proactive. The largest group is Mediocre. Competent is the second large. The large number of Mediocre brings an indication of more business expansion in the future, which is also an indication of good future economy.

Acknowledgement

We are greatly indebted to our sponsors, Faculty of Business Management, Research Management Institute, Universiti Teknologi MARA and Universiti Utara Malaysia for providing us the research grant that enable us to conduct this research successfully.

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