

## Internal Motivation as a Mediating Factor in Determining the Competitiveness of Micro Entrepreneurs

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### ABSTRACT

Entrepreneurial motivation is a critical element in enhancing the competitiveness of micro entrepreneurs. The Malaysian government has taken several initiatives in providing motivational training through several federal and state agencies such as Gagasan Badan Ekonomi Melayu (GABEM), Yayasan Pembangunan Usahawan (YPU), Majlis Amanah Rakyat (MARA) and Yayasan Pembangunan Keluarga (YPK) Terengganu. The issue remains whether the micro entrepreneurs are able to sustain their motivation in improving their business competitiveness that will help them penetrate new and bigger markets. In light of this issue, the authors postulate three entrepreneurial success factors and internal motivation as the mediating variable in determining the competitive level of the micro entrepreneurs. A total of 520 micro-entrepreneurs were selected from seven districts in Terengganu, Malaysia. The three steps regression analysis revealed that internal motivation partially mediates all three entrepreneurial success factors, effective management, personal quality and family support. These findings revealed that the combination of internal motivation with other entrepreneurial success factor would be critical in creating sustainable competitive advantage among micro entrepreneurs. The authorities responsible for the development of the entrepreneurs would therefore be wise to design better motivation programs that will sustain their competitiveness in the long run.

**KEYWORDS:** Micro-Entrepreneurs, Entrepreneurial Knowledge, Internal Motivation, Business Competitiveness, Terengganu.

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### INTRODUCTION

Past scholars have suggested that the development of a country is significantly contributed by the stability of its politic and economic environment which is affected by the entrepreneurial activities and business competitiveness. In fact, many developing countries such as Nigeria [1], Ghana [2], and Pakistan [3] have introduced policies and procedures that encourage micro entrepreneurs to better compete in the market place. In Malaysia, the government through its “New Economy Policy” has taken many initiatives to create higher employment rate, better income, improvement of local economies and general social transformation in order to eradicate poverty among its citizens. Moreover, since the Ninth Malaysian Plan (2006-2010), the government has been devoting and designing the Small and Medium Enterprises (SME) development plan to assist the SMEs to meet new business challenges in the competitive national business market.

All these positive impact lies in the competitiveness of the entrepreneurs in the local and international market. The researchers therefore argue that the main issues concerning the micro-entrepreneurs in Terengganu are their ability to stay competitive in challenging markets. The micro entrepreneurs acceptance to the government’s initiative and implementation of poverty eradication programs are expected to create employment, generate employment, improvements of local economies and general social transformation of entrepreneurs’ livelihoods. In terms of developing the potential among entrepreneurs, in [4] emphasized that there are several factors that contributed to the competitiveness of successful entrepreneurs, which includes sense of independent, risk-taking, achievement oriented, self-confident, optimism, hard-working and being innovative. In [5] argues that entrepreneurs personal characteristics significantly impacts participants’ perceptions of their abilities to develop and expand their business. In addition to external factors such as government policies, economic, managerial and economic factors, in [6] proposed that the success factors of small business includes personal factors such as hard work, ethics, commitment, perseverance, autonomy, locus of control, and risk taking toward their business. Hence, the researchers hope to measure the mediating effect of internal motivation on the relationship between the entrepreneurial success factors and the business competitiveness of the micro entrepreneurs who operates in Terengganu, Malaysia. In addition, the authors hope to determine whether the support from family members mediates the critical success factors in creating business competitiveness. The three factors are the entrepreneurs’

ability to manage their business efficiently, their ability to exploit business opportunities, and personal development.

According to [7], the core definition of entrepreneurship comprises of human creativity and the ability to discover profitable ideas that enable market actors to take advantage of new and socially beneficial gains from trade. SMEs play a vital role in a country's economic development. The current trend of economic growth and the rapid industrial development has made Malaysia as one of the strongest economies among developing nation.

## LITERATURE REVIEW

Review of the literature suggested three independent variables or predictors was identified which may include variables such as managing business effectively, family support, exploiting business opportunities, good positive character such as strong will, hardworking, high commitment, and high internal motivation. In this respect, in [8] argues that the characteristics of the entrepreneurs and their pursuit of business opportunity are critical to be successful. Still, strong internal motivation is required to sustain the intentions to stay in the business and exploit the right business opportunities. They further argued that commercially oriented entrepreneurs are motivated to work hard to earn money, power, prestige and status. For example, in the medical field, the search for the cure for cancer may be far more powerful motivator than personal wealth creation. Opportunistic entrepreneurs however may be motivated by a need to achieve or to succeed from the profit and economic perspective.

Past research by [9] revealed that the primary motivations for starting a business are to increase income and a source of job security. They also proposed that these motivations for better income dominate the internal reward motivations which relates to independence and intrinsic motives. Furthermore, if entrepreneurs are motivated primarily by income potential, then increasing the profitability of business ownership should encourage more SME entrepreneurs to start-ups.

### Competitiveness of SME

In this paper, the dependent variable is identified as business competitiveness of the micro entrepreneurs. The internal motivation is considered as the mediating variables. In this respect, in [10] suggested that from a business perspective, sustainable competitiveness not only means acquiring material benefits. It also means the ability to maintain a competitive edge through continuous improvements and innovations that will distinguish their business from their competition. Business competitiveness can also be measured from the best possible management of resources (land, capital, and knowledge) and competence (skills, infrastructure). It is also important to improve the shortcomings of the business in order to achieve greater prosperity, higher living standards and employment.

In [11], who studied the impact of SMEs in Indonesia proposed that competitiveness of the SMEs can be measured according to several factors which include the types of technology used, methods of production and types of products made relative to the degree/level of technology used (low/traditional, medium, high/advanced). On the other hand, in [12] adopted the work of [13], in their study of street vendor in Nigeria. They proposed that the education of the street vendors is valuable rare, in-imitable and non substitutable since the basic education of these street vendor provide them with the numeracy skills important in effective daily operations of their business. Such skill is important for them when making change for customers and determining their margin when negotiating with suppliers.

In this respect, in [14] has noted that successful and competitive entrepreneurs play a prominent role in reducing poverty by injecting substantial amounts of money into the economy, sharing wealth with the poor and providing job for them. These approaches have positively improves the social and economic development in Ghana in the context of attracting investment, employment opportunities, and decreasing poverty. Moreover, in [15] has suggested that the long term competitive advantage of small and micro scale enterprises is one of the means of eradicating poverty. Furthermore, according to [16], the concept of sustainable micro-entrepreneurship is a development process combining three aspects, namely microfinance, entrepreneurship and sustainability. Moreover, in [17] postulates that to create business competitiveness, the ability to utilised market opportunities mediates other predictors such as management structure, product development and continuous source of supply.

## CONCEPTUAL MODEL

In this paper, based on the review of literature, three independent variables or predictors was identified which include managing business effectively, personal quality and good family support. The dependent variable, on the other hand is identified as business competitiveness of the micro entrepreneurs. Internal motivation is considered as the mediating variable. All these variables are depicted in the conceptual framework in the following section.

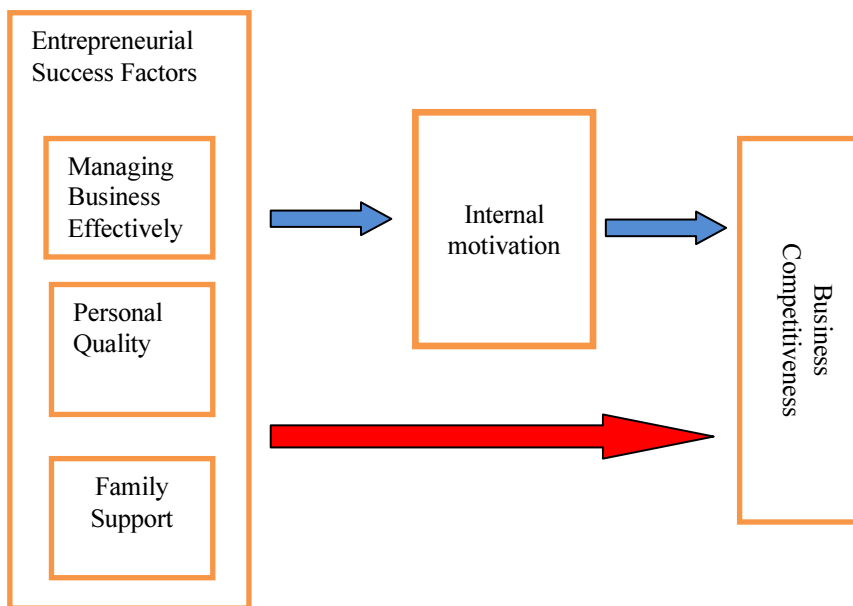


Figure 1: Conceptual framework of the mediating effects of internal motivation

### RESEARCH METHODOLOGY

A survey using self administered questionnaires was chosen as the main data collection method. Respondents were chosen from micro-entrepreneurs in the state of Terengganu who are registered with Yayasan Pembangunan Keluarga Terengganu (YPKT). Questionnaires were distributed through face-to-face interviews and by mail. Items used in the questionnaire were adopted from several theoretical concepts identified in the literature and also common themes expressed by the respondents during the preliminary interviews. In this study, a sample of 580 of micro-entrepreneurs was selected from the total number of population of 3148 micro-entrepreneurs in the state of Terengganu [18]. They were selected from seven (7) districts in Terengganu as proposed by [19]. The respondents are micro-entrepreneurs registered with YPKT. These entrepreneurs operate in seven districts, namely Besut, Setiu, Kuala Terengganu, Hulu Terengganu, Marang, Dungun, and Kemaman. A systematic quota sampling method was adopted in selecting the respondents in all 7 districts. In order to analysis the data, the authors applied the regression analysis to determine the influence of three predictors, exploiting business opportunities, effective business management and internal motivation on the dependent variable, business competitiveness. Secondly, the mediating effect of internal motivation on the relationship between the predictors and the dependent variables was also determined using a three step multiple regression analysis as suggested by [20].

### RESULTS AND DISCUSSION

The authors conducted a multiple regression analysis in three (3) steps in order to determine the mediating effect of Internal Motivation on the relationship between the predictors and the dependent variable. All results are shown below.

#### Step 1:

The dependent variable is regress on the independent variable. In other words, the authors are determining whether the independent variables are significant predictors of the dependent variable. A “Step Wise” method was used in all regression analysis, and any insignificant variables are excluded from the equation.

Independent Variables Dependent Variable

$$y = 0.287 + \beta X_1 + \beta X_2 + \beta X_3 + 0.117$$

$$y = 0.287 + 0.526X_1 + 0.259X_2 + 0.129X_3 + 0.117$$

y = Business Competitiveness

X<sub>1</sub> = Effective Management, X<sub>2</sub> = Family Support, X<sub>3</sub> = Personal Quality

All β value for all predictors is significant (p < 0.05) with R Square (r<sup>2</sup>) value of 0.676

**Step 2:**

In the second step, the mediator (Internal Motivation) is regressed on the independent variables. In other words, the authors are trying to confirm that the independent variables are significant predictors of the mediator. If the mediator is not associated with the independent variables, then it could not possibly mediate anything. All results are shown below.

Independent Variables  Mediator

$$y = 0.149 + \beta X_1 + \beta X_2 + \beta X_3 + 0.110$$

$$Me_1 = 0.149 + 0.497X_1 + 0.236X_2 + 0.193X_3 + 0.110$$

$Me_1$  = Internal Motivation

$X_1$  = Effective Management,  $X_2$  = Family Support,  $X_3$  = Personal Quality

All  $\beta$  values for all predictors are significant ( $p < 0.05$ ) with r Square ( $r^2$ ) value of 0.608

**Step 3:**

According to [21], the third step demonstrates that when the mediator and the independent variable are used simultaneously to predict the dependent variable, the previously significant path between the independent variables and dependent variable (step 1) is now reduced, if not totally insignificant. In other words, if the mediator were to be removed from the relationship, the relationship between the independent and dependent variables would be noticeably reduced. The equation is therefore shown below.

$$y = 0.173 + \beta X_2 + \beta X_3 + 0.167 Me_1 + 0.116$$

$$y = 0.173 + 0.443 X_1 + 0.205 X_2 + 0.289 Me_1 + 0.111$$

$Me_1$  = Internal Motivation,  $X_1$  = Effective Management,  $X_2$  = Family Support

All  $\beta$  values for all predictors are significant ( $p < 0.05$ ) with r Square ( $r^2$ ) value of 0.707

The authors also discovered that the mediating variable; Internal Motivation is a significant predictor as shown by the significant value of less than 0.05. Furthermore, the Beta values ( $\beta$ ) of the predictor variables, Effective Management and Family Support are lower compared to its Beta values ( $\beta$ ) in step number 1. The Beta value for Effective Management decreases from 0.526 to 0.443 and the Beta value for Family Support decreases from 0.259 to 0.205, confirming the partial mediation of Internal Motivation on the independent variables, Effective Management and Family Support. In addition, the R Square ( $r^2$ ) value in the third equation is higher (0.707) than the R Square value (0.676) in the regression analysis in step number 1, highlighting the mediating effect of Internal Motivation in the relationship between the two predictors (Effective Management and Family Support) and the dependent variable, Business Competitiveness. The researchers also discovered that the independent variable, Personal Quality is insignificant (Sig. value greater than 0.05) in influencing Business Competitiveness when the mediating variable, internal motivation is included in the regression model. This result indicates the total mediating effect of Internal Motivation on the relationship between Personal Quality and business competitiveness.

## CONCLUSION AND RECOMMENDATIONS

The findings of this paper provide a clear picture to the relevant authorities in determining the factors and dimensions that are perceived by the micro-entrepreneurs as critical in creating business competitive advantage. More importantly, we postulates that for the micro entrepreneurs in Terengganu, internal motivation is a crucial factor in creating competitiveness of the micro entrepreneurs which will eventually create better market penetration, better products and services, and better income for the entrepreneurs. In addition to other success factors which include support of family members and ability to manage the business efficiently, the internal motivation is paramount due the fact that these entrepreneurs are operating on limited resources. The limited financial resources do not allow them to hire many employees to run the business. Moreover, the researchers also discovered that internal motivation totally mediates the influence of personal quality on the entrepreneur's ability to create competitiveness.

The researchers propose that proper training should be given to the entrepreneurs who plan to create competitiveness in the present market or venture into new markets. Training with mentoring aspects is deemed important as opposed to pure lecture based training [22]. In their work, in [23] added that the purposes of entrepreneurship training are to develop human capital, stimulates local entrepreneurial talent, create opportunities in the market, and enhance the entrepreneurs marketing skills. Moreover, in [24] suggested that consulting services that focuses on managerial skills, designing better business plan and maintenance of proper financial records will help the entrepreneurs to secure better manage their business and secure better funding. We argue this will empower the entrepreneurs to look at the success and failure of a business more on their actions and not on external forces. However, in [25] proposed that entrepreneurs who are motivated to start a firm out of necessity or to strive for independence are not likely to have high ambitions for their business and therefore are probably not the ones

making a significant contribution to their country's development, employment creation, and economic growth. It is therefore necessary for policy-makers to devote their attention to the enhancement of motivation levels among independence-motivated entrepreneurs. This awareness will motivate them to take greater responsibility in determining the business success.

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