

An Investigation of the Small Business Start-ups' Performance

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ABSTRACT

This paper aims to scrutinize the factors that influence the performance of small businesses in the early stages of operation. The sample for this study consists of small enterprises that operate under the Tunas Mekar programme in the states of Terengganu and Kelantan. Multiple regression analysis was conducted to analyse the data. This study reveals that entrepreneurial characteristics, management practices, and training and guidance significantly influence the performance of small business start-ups. This paper proves that entrepreneurial characteristics and management practices are important attributes for the performance in the initial stage of an enterprise. It also reminds theorists and practitioners that to ensure the sustainability of emerging small enterprises, training should not be neglected.

KEYWORDS: Small Business, Entrepreneur, Early Stage Performance.

INTRODUCTION

Small business performance is closely related to the performance of a country's economic growth [13]. This elucidates the importance of the sector as an instrument that can generate not only economic growth in developing nations but also developed countries [6]. Yet, the role and contribution of small enterprises in economic development in some countries are more significant than those of big industry [31]. In addition, the sector has been identified as having the ability to create employment opportunities [5, 34], encourage the spread of technology and innovation [6, 31] and generate wealth and income [31].

In Malaysia, not only are small enterprises catalysts for economic growth, they are also vital mechanisms for achieving socio-economic development [9]. Based on such interest, the government has developed a variety of programs and policies to ensure a more significant involvement of Bumiputera participation in the modern sector. Starting with the New Economic Policy (NEP) (1971-1990) in which the government has put tremendous efforts in emphasizing the involvement of Bumiputera continued to be realized in each country's economic development plans. Many programs have been conducted in order to training. The government has also established various funds either through financial institutions, attain this goal. Those are the development of entrepreneurial skills and Bumiputera positive attitudes towards business, the setting of business infrastructure and premises, and technical development financial institutions (DFIs), Bank Negara Malaysia, small and medium enterprises (SMEs) fund and microcredit schemes.

As for Bumiputera entrepreneurial development, the government also stresses on the importance of human capital in order to produce more resilient, competitive, creative and innovative Bumiputera entrepreneurs. These traits are important to enable them to absorb the challenges of an increasingly competitive business competition. In conformity with the requirements of a higher level of education among Bumiputera entrepreneurs, a project was launched on 19 May 2005 known as the Tunas Mekar Programme, which was instigated under the Implementation Coordination Unit (ICU) of the Prime Minister's Office (PMO). The main objective of the program is to produce more competitive and self-sustainable Bumiputera entrepreneurs.

Although various programmes and policies have been implemented to ensure the more comprehensive involvement of the Bumiputera in small businesses, their performance is still not at par with the provision and assistance provided by the government. In fact, the Tunas Mekar project continues to require massive financial support from the government. Hence, a comprehensive study should be conducted to evaluate the effectiveness of the programme in improving the performance of small enterprises among the Bumiputera. The assessment should be made to identify the cause of the weaknesses in the programme, to look for a more appropriate approach to correct the deficiencies and to make recommendations to the relevant stakeholders so that the goals of the programme are achieved. In general, the objectives of this study are to examine the relationship among various factors that can influence the performance of small enterprises under the Tunas Mekar project in the early stages of operation and propose appropriate measures to improve their performance.

LITERATURE REVIEW

Many studies clarify that the performance of the small enterprise sector is closely related to the internal and external environment of the firm [18, 2, 8]. Among the internal factors that have been identified to influence the performance of small enterprises are the characteristics of the owner/manager, management practices, level of education, family member involvement, business experience, moral value practices and characteristics of the business. While the extrinsic environmental factors are including such as training, mentoring, industrial surroundings and government policy. Even though there are various factors that influence the performance of small enterprises, not all of these determinants are in the market and more importantly is the role of entrepreneurs who operate the business [30].

Entrepreneurial Characteristics

The characteristics of entrepreneurship refer to entrepreneurial values that belong to the owners/operators. Many studies [7, 18, 28] explain that the entrepreneurial traits of an owner/manager are very important factors that affect the performance of small enterprises. In [39] describes the characteristics of entrepreneurship are energetic, responsible, self-confident, risk-taking, visionary, committed to work, creative and innovative and having an internal locus of control. In [29] puts initiative as one of the characteristics of a successful entrepreneur because entrepreneurs having high initiative will improve on their management style and business operational skills, and actively engage in learning and personal development. Research by [42] over 144 small businesses in rural enterprises under the concept of "One District, One Industry" in Malacca, Kelantan, Perak, Selangor and Johor, find out that entrepreneurial characteristics of owner/manager is very important factors in influencing the success of suburban enterprises. Regression analysis study conducted by [33] clearly shows that there is a significant positive relationship between entrepreneurial characteristics and the overall performance of the firm. Therefore, it can be concluded that possessing very high entrepreneurial traits enables entrepreneurs to contribute to the development of the economy, as described by the Theory of Economic Development [50]. To clarify the relationship technically, this study identifies the following hypothesis:

Hypothesis 1: The characteristics of the owner/manager have a significant positive influence on the performance of small enterprises in the early stages of operation.

Management Practice

Management practice is defined as the approach used by entrepreneurs in business management, particularly in terms of funding, marketing, operations and human resources. Weaknesses in the management practice would result in the negative impact on business performance [20]. A study carried out by [44] shows that financial management practices by Bumiputera farming entrepreneurs are still in an unsatisfactory level. This has contributed to the unpleasant performance of small businesses. There are many studies pointed out a positive relationship between management practices and business performance; such as [55,54,18, 2]. However, in [43] discovers that there is no relationship between growth and financial aspects of the business such as bookkeeping, financial control, planning, budgeting and cash flow management. This finding is contrary to most previous studies [53, 27]. Nevertheless, based on empirical evidence from previous studies, it clearly shows that management is an important element in the relationship with the performance of a small enterprise. To evaluate the relationship and associate it with the Firm Theory, the research has identified the following hypothesis:

Hypothesis 2: Management practice has a significant positive influence on the performance of small enterprises in the early stages of operation.

Training and Guidance Program

Training and guidance are learning activities aimed to improve individual performance through enhanced knowledge, skills or attitudes [25]. Many researchers [19, 49, 37,4] highlight on the importance of training and guidance on the performance of a business. In [23] finds that Sabah SME Bumiputera require entrepreneurship courses such as operations management, business management and marketing management to further develop their business in the future. The findings by the [16] empirically showed that entrepreneurs who had participated in the Small Firms Training Loans scheme established by Barclays Bank; managed to achieve business growth faster than those who did not. According to [9], a survey conducted by the Human Resource Development Fund (HRDF) for the period 2000 to 2002 finds that the majority of owners/managers of small enterprises confirm that the programmes they undertook have a positive impact on job performance, product quality, employee productivity and employee satisfaction. To examine the relationship between the two variables, the study puts forward the following hypothesis:

Hypothesis 3: The training and guidance programmes undertaken by the owner/manager have a significant and positive relationship with the performance of small enterprises in the early stages of operation.

Business Experience

Business experience refers to the exposure associated with the business acquired by operators/owners before they start their own businesses [47]. Experience may be obtained from the parent business, helping businesses of close relatives or becoming employees to others. In [14] states that experience gained by the owner /manager will have an impact on the performance of a business. Business or entrepreneurship experiences have positive relationship with performance [35, 22, 21]. The studies conducted by [15, 35] prove the longer experience acquired, the higher the growth rate and profitability as well as employment opportunities that can be provided by a business venture. In Malaysia, the empirical study on the relationship between human capital aspects and business performance is too limited. In [1,38] conducted a study to identify factors that influence the success of micro enterprises funded by charity offices in Selangor and Wilayah Persekutuan. Success or failure is referring to the increase in monthly income. The analysis was done using a Logit regression model. The results showed business experience of an entrepreneur has a significant relationship with business success. Based on empirical evidence from previous studies, this study attempts to make a theoretical analysis of the relationship between the business experience of an entrepreneur and the performance achieved. To assess the relationship, the following hypothesis is derived:

Hypothesis 4: The business experience of owners/managers before starting their own business has a significant positive influence on the performance of small enterprises in the early stages of operation.

Initial Capital

Initial capital is financial capital used to start small enterprise activities. Capital is very important to run a business. Sufficient capital is required for a variety of business needs. Success has always been associated with the amount of start-up capital. Organizations that have large amount of capital will be more successful [32, 46]. Lack of funding is a major cause of small business failure. Without sufficient funding, a small entrepreneur cannot afford to buy and maintain the facility, recruit, produce and market products [34]. In [36] found that initial capital constraints in the early stages of business give a negative impact on performance which is measured by income and ability to expand. Lack of initial capital prevents entrepreneurs to invest optimally and restrict their business opportunities [52]. An entrepreneur must have the ability to take advantage of good investment [17] in order to increase the performance of the firm. Based on empirical evidence from studies that have been conducted, this study attempts to show that the initial capital is related to the performance of a small enterprise. To assess the relationship, the following hypothesis is developed:

Hypothesis 5: The amount of business start-up capital has a significant and positive relationship with the performance of small enterprises in the early stages of operation.

RESEARCH METHODOLOGY

Measures

The dependent variable in the framework of this research is the performance of the business. Most of the items used in the instrument are referring to those used by [31, 18]. The items include the sales, profit, business stability, business growth, an increase in the number of employees, customer satisfaction, increase in the value of the assets, and business networking. Performance measurement according to the subjective approach is based on a five-point Likert scale with frequency 1 = "very dissatisfied" to 5 = "very satisfied".

This study presents five independent variables; namely, the entrepreneurial characteristics of the owner/manager, management practices, training and guidance, business experience and the amount of initial capital. To measure the entrepreneurial characteristics of an owner/manager, ten (10) items are used; leadership, risk-taking, creative and innovative, self-confidence, always seeing and seizing opportunities, commitment, endurance, strong desire, freedom and aggressive. Measurements are based on a five-point Likert scale with frequency 1 = "very low" to 5 = "very high". The variables for management practices are measured using a total of 15 items, i.e. concerned with the quality of products/services, increase productivity, reduce costs, make financial notes, increase business capital, reinvest, maintain high cash balances, provide credit facilities, endeavour to expand the market, introduce the identity of products/services, good relationships with customers, take into account changes in consumer preferences, make direct selling and always look for new marketing methods. The measurements for all those items are based on a five-point Likert scale with frequency 1 = "strongly disagree" to 5 = "strongly agree".

The variables for training and guidance are measured by the number of training and guidance programmes undertaken by the respondents in the last three years (2010-2012). Seven types of training and guidance

programme are listed in the survey instrument; namely, the basics of business, entrepreneurship motivation, business plan preparation, information technology, marketing and promotion, financial management and technical knowledge. The respondents have to state the form of training and guidance undertaken in the past three years. The measurement for business experience in this study is based on the period (year) of the respondents' business experience before starting their own business. Lastly, the initial capital is measured based on the amount of financial capital used to start a business.

Sample

The population of the research is small enterprises under the Tunas Mekar programme that operate in the state of Terengganu and Kelantan. According to the statistics from MASMED Shah Alam, the number of Tunas Mekar apprentices in the state of Terengganu and Kelantan for the three (3) series is 158: Terengganu (67) and Kelantan (91). After the distribution of the questionnaires and phone calls, the results of the initial survey and feedback of the target group show that 48 of the apprentices are not involved in business after getting jobs. In addition, there are apprentices who remain undetected. Data collection in Terengganu was mostly done via face-to-face interviews and e-mail. For respondents in the state of Kelantan, they were first contacted by telephone and given information about the study. Then, the questionnaires were sent to them via e-mail. Having completed all the relevant information in the instrument, they were required to send back the survey form to the researcher through e-mail. Of the total population, only 62 respondents (39.2%) responded to the survey: Terengganu (29) and Kelantan (33).

After all of the data were obtained, they were keyed into the SPSS program and subsequently cleaned. The research conducted some statistical analyses to verify and determine the reliability of the data. Analysis of Cronbach's Alpha was done to assess the reliability of the instrument and to identify the internal consistency or uniformity in the questions [3]. Table 1 shows the Cronbach's Alpha Coefficients for these three variables, which are very high and more than 0.7. This explains that all of the items used in the variables are reliable, as indicated by [40].

Table 1: Reliability test

Constructs	Items	Cronbach's Alpha
Entrepreneurial Characterist	10	0.931
Management Practices	14	0.919
Business Performance	8	0.942

Source: based on the sample survey

Kolmogorov-Smirnov test is the method used in this study to determine whether the data collected is parametric or non-parametric data. Table 2 shows that all the variables are assessed on a Likert scale are significant with more than 0.05. This finding indicates the data used for all of these variables is parametric data, describing that they are normally distributed. Given the nature of the data, hypothesis testing which is related to the objectives of the study is conducted using parametric method.

Table 2: One-sample Kolmogorov-Smirnov test

Constructs	Items	Kolmogorov-Smirnov Z	Asymp sig. (2 tailed)
Entrepreneurial Characterist	10	0.899	0.394
Management Practices	14	0.988	0.283
Business Performance	8	0.909	0.381

Source: based on the sample survey

RESEARCH FINDINGS

Table 3 shows the descriptive statistics to describe the mean, standard deviation (SD) and the relationship among variables. The variables are two control variables (size of business and sales volume), the independent variables (entrepreneurial characteristics, management practices, training and guidance, business experience and initial capital) and the dependent variable (business performance).

Table 3: Descriptive statistics and correlation

Variables	Min	SD	1	2	3	4	5	6	7
Size of business	1.47	1.339	1.000						
Sales	10729.03	31517.9	0.115	1.000					
Entrepreneurial characteristics	3.5065	0.64500	0.017	0.120	1.000				
Management Practices	3.4908	0.52560	-0.069	0.213*	0.636***	1.000			
Training and guidance	3.48	2.148	0.068	0.199	0.090	0.295**	1.000		
Business experience	2.47	1.744	0.382**	0.104	0.212*	0.122	0.162	1.000	
Initial Capital	7759.68	6808.44	0.156	0.239*	0.093	0.449***	0.373**	0.123	1.000
Business Performance	3.3972	0.851	-0.094	0.149	0.717***	0.868***	0.328**	0.131	0.345**

Notes: significant at * $\rho < 0.10$, ** $\rho < 0.05$, *** $\rho < 0.01$; $n = 62$

Source: based on the sample survey

Analyses explaining hypothesis 1 to hypothesis 5 are based on the findings of the study as shown in Table 4. The multiple analyses clearly show the R^2 of more than 80%. The F test is significant at the level of 0.01. This indicates that all the independent variables in the study are able to explain significantly the variations of small business performance in the initial stages of operation.

In model 1, controlling is performed by the variables of business size (number of full-time employees) and monthly sales. However, these two variables do not show any relationship with the performance of small enterprises. To examine the relationships between the various factors affecting the performance of small enterprises in the early stages of operation, the study analysed both the control variables and five independent variables of entrepreneurial characteristics, management practices, training, mentoring and guidance, business experience and initial capital simultaneously. The results are shown in Model 2. There are significant changes in R^2 ($\Delta R^2 = 0.781$, $p < 0.01$). The findings show that the variable entrepreneurial traits possessed by operators has a significant positive impact on the performance of a small business ($\beta = 0.304$, $p < 0.01$). This finding confirms H1, which explains that entrepreneurial characteristics have a significant positive influence on the performance of small enterprises. The analysis also shows that the variable of management practices has a positive impact on the performance of a small business ($\beta = 0.644$, $p < 0.01$). The findings of the study confirm that H2 explains that the factor of management practices plays a very important role in determining the performance of small enterprises in the early stages of operation. Indeed, the influence of management practices on the performance of small enterprises in the early stages of the operation is more significant than the factor of entrepreneurial characteristics possessed by operators/owners. The variable of training and guidance also shows a significant positive correlation with the performance of a small business ($\beta = 0.123$, $p < 0.1$); thus supporting H3. However, the influence of this factor does not show a strong influence on the performance of a small business compared to the factors of entrepreneurial characteristics and management practices. The study also shows that business experience ($\beta = -0.006$, ns) and initial capital ($\beta = 0.001$, ns) have no significant relationship with the performance of small enterprises. Therefore, the study cannot confirm H4 and H5.

Table 4: Multiple regression analysis

	Collinearity Statistics		Model 1	Model 2
	Tolerance	VIF		
Controlling Factors				
Business size	0.799	1.252	-0.112	-0.056
Sales	0.909	1.100	0.162	-0.042
Influencing Factors				
Entrepreneurial characteristics	0.519	1.926		0.304***
Management practices	0.409	2.447		0.644***
Training and guidance	0.815	1.227		0.123*
Business experience	0.797	1.254		-0.006
Initial capital	0.645	1.550		0.001
R^2 change			0.035	0.781
R^2			0.035	0.816
Adjusted R^2			0.002	0.792
F			1.063	34.109***

Note: dependent variable-small business performance, * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Source: based on the sample survey

DISCUSSION AND CONCLUSION

The performance of small business start-ups is influenced by factors involving the internal and external environment which are identified from previous studies. Based on multiple regression analysis, the findings showed that the influence of the variables on the performance of small enterprises varied. Of the five variables analyzed, there are three variables indicated significant relationships, while the other two were not related with the small business in the early stages of operation.

The findings showed that entrepreneurial characteristics of the owners/operators are important factors that can determine the performance of small business start-ups. The influence of those factors on the performance of a small business in the early stages of operation is positive and significant. Thus, the higher the entrepreneurial characteristics possessed by the owners/operators, the better their performance in running small enterprises. The results are consistent with the findings of studies conducted by [16, 31, 28, 26, 12]. These researchers clearly demonstrate that entrepreneurial characteristics possessed by operators are vital in determining the survival of small enterprises. Entrepreneurial characteristics that should be possessed by operators are leadership, willingness to take risks, endurance and high competitiveness, self-confidence, always seeing and seizing opportunities, perseverance, commitment, aggressive and emphasising high achievement. The positive relationship between entrepreneurial characteristics and small business performance indirectly supports the

Theory of Economic Development by [48] which emphasized the role of the entrepreneur as the prime mover in economic development.

Empirical evidence from the results of the multiple regression analysis clearly showed that management practices are very important factors in determining the performance of a small company in the early stages of operation. The results showed a positive significant relationship between management practices and performance. It is clear that the performance of small business start-ups depends on the form of management practices carried out by the owners/operators, especially in the three major aspects of financial management and accounting, marketing and operations. These findings are consistent with previous research [53, 41, 27, 2]. Through effective management practices, various difficulties in business will be dealt with more easily. The importance of good management in the performance of small enterprises, particularly in the early stages, can be associated with the Theory of the Firm. In handling the cost of production, management practices are seen as one of the important aspects that can influence the internal economy of scale and profits. To ensure a small gain economy of scale, operators must have competency in management, particularly in finance, marketing and operations. Good management practice is essential for reducing operating costs and wastage of resources, and, thus, will have a positive impact on the performance of small enterprises.

The results also showed that training and guidance have significant positive correlations with the performance of small business start-ups. However, the influence of these factors is not that strong compared to the factors of entrepreneurial characteristics and management practices. The positive relationship between these factors with business performance indicated that the more training and guidance undertaken by operators, the better the performance. These findings are consistent with the results of studies conducted by [49, 4, 25]. Furthermore, the findings support the Theory of Human Capital that stressed on the importance of training and guidance in determining the performance of small enterprises as described by [19, 24, 11].

Empirically, the findings show there is no relationship between business experiences of owners/operators with small business performance in the early stages of operations. These findings are coherent with studies conducted by [2, 51, 43, 33]. Conversely, the result is inconsistent with the Theory of Human Capital, which claims that business experience is one of the human capital elements that can affect business performance. The reason for this is that the owners/operators involved in this study are inexperienced since the majority of them do not have any family members engaged in business. In fact, they have never worked with anyone else before. Experience acquired in a university does not interrelate with the business situation, and, hence, cannot provide the necessary skills to improve the performance of their small enterprises [45].

Although capital is a very important factor in starting a business, the results empirically demonstrate the amount of initial capital is not significantly correlated with the small business performance during start-up. This finding contradicts with what is explained by [52, 36, 34, 10]. The study conducted on micro enterprises which usually do not involve large amounts of capital. The majority of them start their own business using savings or loans from immediate family members. As a result, capital factor cannot explain the relationship that exists with the performance of small enterprises in the early stages of operation. For micro-sized enterprises and new start-ups, the issues of entrepreneurial characteristics, management practices, and training and guidance are more significant to influence the success of a business.

LIMITATIONS AND FUTURE RESEARCH

While this research makes valuable theoretical and practical contributions, it still has some drawbacks. Since this programme has just reached Series 4 and samples involved are new to the business (less than three years), the impact of performance obtained is an "intermediate impact". At the same time, the sample of only 62 small enterprises run by graduates of Tunas Mekar in the States of Terengganu and Kelantan limits the "generalization" of the findings. The study also makes simple tests on the hypotheses concerning the influence of several factors on the performance of small enterprises in the early stages of operation. There is room for a more inclusive study on the performance of small enterprises by taking into account the various factors highlighted in previous studies. These factors include the financial resources available, economic factors, government support and networking. Thus, it is possible to obtain more comprehensive information concerning the various factors that affect the performance of small businesses during start-up.

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