Microenterprises in Malaysia: a preliminary study of the factors for management success

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Abstract:

Microenterprises continue to proliferate in countries around the globe, creating jobs while improving the overall economic outlook of countries. A preliminary study of 151 microenterprises in Malaysia found performance and Entrepreneurial Orientation were significantly affected by key management activities. Performance was influenced little, if any, by outside financing or government support. Moderate support was found for the relationship between managerial capabilities and sales and profit, securing finances, and government financing. The findings indicate that management of the microenterprise is a key contributor to business success. Management training programs should be implemented to assist microenterprises. Personalized entrepreneurial training for groups must be developed to reach the multicultural and multi-ethnic Malaysian population. This study has major implications for government officials, non-government organizations, and policy-makers as they seek viable, sustainable models for microenterprise expansion in emerging economies. Information technology may offer solutions to access issues. Limitations and implications for future studies are discussed.

Keywords: Entrepreneurial Orientation | Malaysia | Management success | Microenterprises Performance

Article:

Introduction

Microenterprises continue to emerge throughout the world (Carbonara *1997*). Defined as a small, owner-operated enterprise typically started by a member of a marginalized segment of the population, these businesses take on various organizational forms to contend with entry barriers and capital constraints. In emerging nations, microenterprises are oftentimes started by women with families and physically challenged individuals in rural areas (Dorfling *2001*). However, in

industrialized countries, these businesses are often started by skilled immigrants. Microenterprises utilize creative entrepreneurial approaches that are often characterized by chaos, and driven by the effective utilization of competencies in entrepreneurship, marketing, and innovation (Durkin and McGowan *2001*). Piore and Sabel (*1984*) noted that microenterprises have a strategic advantage through flexible business structures. These businesses traditionally have fewer barriers upon startup and are able to function across diverse sectors of the economy with lower capital and skill requirements (Lee *2008*). Generally, these businesses have limited inventory and access to capital, so they bootstrap operations (Eversole *2004*). Since they are small, microenterprises are much more flexible and responsive to market and customer demands (The Herman Group *2003*).

Microenterprises have had a positive economic impact in developing nations, helping them progress despite limited support from civil and commercial organizations (De Soto *1989*; The Futurist *2003*). These businesses have also aided in job creation by providing opportunities to those unable to find jobs, while helping eliminate poverty through profitability (Rogerson *2004*; Servon *1999*). Microenterprises also provide more affordable goods and services to the community because they are usually lower in price (Kirkpatrick and Hulme *2001*). Given the positive impact of microenterprises and the limited studies on microenterprise performance, the purpose of this study is to examine the factors that affect and shape microenterprise performance. Specifically, proactive management activities directly linked to the daily operations of the microenterprise are examined.

This study will report whether microenterprises with greater performance rely on outside financial resources, whether higher performing microenterprises sought outside support, and whether Entrepreneurial Orientation (EO) is related to key management activities in Malaysia. This study contributes to the literature as it examines EO in an emerging country. Most of the EO studies have been conducted in the context of United States or other developed countries (i.e., Covin et al. *2006*; Hughes and Morgan *2007*; Hult et al. *2004*; Lumpkin and Dess *2001*; Wang *2008*).

Although Awang et al. (*2011*) studied EO in Malaysia, their study explored the multi-dimensional entrepreneurial orientation (EO) relationship to knowledge and networking among small and medium agro-based enterprises, not microenterprises. They did not study the relationship of EO and performance, a critical success factor in business sustainability. Moreover, an important test in science is consistency or establishing reliability and validity of empirical findings (Hubbard and Vetter *1996*). To evaluate the generalizability of earlier EO research findings, Frank et al. (*2010*) replicated the work of Wiklund and Shepherd (*2005*) and tested the validity of their results in a different national context. Since “theory development and refinement have suffered from the lack of an explicit replication tradition in research,” (Easley et al. *2000* p. 83) and successful “replication protects against the uncritical assimilation of specious empirical results into the literature” (Hubbard and Vetter *1996* p.153), using existing models in

the Malaysian context is justified. For the purpose of this study, EO refers to the processes, practices, and decision-making styles of businesses (Lumpkin and Dess *1996*).

Literature review

Factors affecting microenterprise success

Microenterprises are organized in varying forms and may be structured as a sole proprietorship, partnership, or a family enterprise, typically with less than ten employees (Storey *1994*; Walls et al. *2001*). Microenterprises' modes of operation vary widely and can change over the life of the business. Larson and Shaw (*2001*) characterize micro- and small-enterprises (MSE) as being: 1) mostly family-owned with family members working in the business, 2) driven by one person, 3) located primarily in rural areas, 4) involved in trading and manufacturing, 5) characterized by multiple start-up and failure rates, 6) founded primarily by women, and 7) operated on a small basis with low income earnings. Many microenterprises have gross sales of under $25,000 a year (Tinker *2000*) and the driving force is survival. The majority of microenterprises tend to be home-based operations (Clark et al. *1999*). The major factors that affect and shape microenterprise performance include access to microenterprise programs (MEPs), training and external support, and financial resources.

Microenterprise programs (MEPs)

Programs to assist microenterprises have been growing, particularly in the areas of loan access and support services (Kibria et al. *2003*). In the United States, MEPs tend to emphasize training and technology support as opposed to loans (Aspen *2009*). There are over 650 microenterprise development programs (Severens and Kays *2002*), although some programs do not necessarily reach out to the poorest in the society, and at times reach more educated parties (Bates and Servon *1996*; Dumas *1999*).

MEPs play a role in poverty alleviation and job creation (Servon *1997*), contribute to economic growth and development (Monroe et al. *1995*), and are largely directed toward women (Servon *1996*). Some programs cultivate microenterprises to address worker displacement and community poverty, and even assist those with disabilities (Sonfield and Barbato *1999*; Himes and Servon *1998*; Walls et al. *2001*). In general, MEPs are directed toward poverty, job creation, economic growth, women-owned businesses, training, private sector linkages, marginalized sectors, entrepreneurially focused businesses, and businesses needing long-term strategies. While the success of MEPs should be anchored on their ability to merge marginalized sectors into the economic mainstream (Woolcock *2001*), successful start-ups have been attributed to previous work experience and a keen understanding of business goals (Edgcomb *2002*) that impact profitability and productivity (Miehlbradt *2002*).

Training and support services

The characteristics associated with microenterprise training include improved self-sufficiency and financial gains, heightened morale, improved operations management skills, innovation and training skills, increased networking opportunities, increased technology and information support, and improved mentoring with a strong community focus. Microenterprise training can lead to increased assets, heightened morale, and a positive attitude (Putnam *1993*). With limited access to credit, increasing microenterpreneurs' knowledge on how to operate a business is critical (Servon and Doshna *2000*). Participation in training programs also improves the chances for microentrepreneurs to succeed through self-sufficiency (Benus et al. *1995*), while networking can strengthen the microenterprise operational base (Dumas *2001*). Aside from training, access to financing and government support facilities are critical success factors for small businesses in the South Pacific and other parts of the world (Yusuf *1995*; Schmidt and Kolodinsky *2007*).

Microentrepreneurs also need other business support services, such as technology access and research assistance (Goldmark *2001*), while added support through mentors can be particularly helpful to microenterprises (Dumas *2001*). Companies receiving support services such as training in management, marketing, information technology, and networking support from public or private agencies experienced a significant increase in sales, employment, and productivity (Sarder et al. *1997*). Another study, however, revealed that firms receiving credit and other forms of assistance did not perform better than those less privileged firms (Mambula *2004*). Nevertheless, government assistance was more critical for the success of small local entrepreneurs than for non-local entrepreneurs (Yusuf *1995*).

In evaluating the availability, accessibility, and adequacy of the support facilities for small businesses in Malaysia, Abdullah and Manan (*2010*) found that a large portion of small businesses (88.1 %) obtain access to the support programs. However, many small businesses do not gain adequate assistance, despite the existence of numerous support programs and involved agencies (Abdullah and Manan *2010*). Other challenges faced by the SMEs include the inability to adopt technology, lack of market information, difficulties in loan access, a lack of skilled workers, and global competition (Ting *2005*).

There are 12 ministries and 40 Government agencies involved in the development of SMEs (including microenterprises) in Malaysia. These ministries and agencies provide a wide range of services for different target groups, including the Industrial Linkage Program (ILP) aimed at enhancing SMEs' participation as reliable and competitive suppliers of parts and components or services to the LIs/MNCs; the Global Supplier Program (GSP) designed to enhance knowledge and capabilities of SMEs into world-class suppliers of services and products; the Headstart 500 Program designed to speed up the transformation of 500 SMEs into global manufacturers; the Vendor Development Program (VDP) to provide continuous consultancy and technical assistance to the vendor (SMEs); the Franchise Development Program (FDP) aimed at developing SMEs in the commercial, services and industrial sectors; Infrastructure Development Program aimed at assisting SMEs to operate their businesses in approved areas or premises; the Skills Upgrading Program to enhance skills of workers; Outreach and Promotional Programs to

encourage SMEs to participate in development programs and financial assistance schemes developed for their benefit; SME Information and Advisory Centre which provides an opportunity for SMEs to seek information and advice on the various support programs and financial assistance provided by the government; SME Experts and Advisory Panel which provides SMEs with experienced industrial experts to assist them in improving their technological capacity and productivity; financial assistance schemes for SMEs which provides financial assistance in the form of grants and soft loans; and the special assistance scheme for women entrepreneurs.

While previous studies suggest that the government support facilities are not accessible or fully utilized, do higher performing microenterprises have external support? Given that 80 % of the small and medium enterprise (SMEs) are micro-enterprises (Chong *2010*), and that SMEs represent 99.2 % of total business establishment in Malaysia (Chong *2010*) creating 5.6 million employment opportunities (Census of Establishment and Enterprise 2005, as cited in Chong *2010*), this study is significant because few researchers examined the success factors of small businesses. Understanding behaviors that could lead to business failure may improve SME business owners' confidence and success rates. Additionally, focusing on the business owner as the unit of analysis will improve understanding of the experiences of entrepreneurs in managing businesses (Stokes and Blackburn *2002*; Zinger et al. *2001*). Given that training and support services are essential to microentrepreneurs, our first hypothesis is that higher performing microenterprises in Malaysia will seek outside support:

H1: Higher performing microenterprises sought outside support.

Microenterprise management and performance

While there is limited literature on successful microenterprise management, some studies suggest that there is an overlap between studies pertaining to small enterprise entrepreneurship and management practice studies. Small business enterprise growth is influenced by management abilities, such as finance, marketing, human resource, and operations management (Kotey and Meredith *1997*). Financial mismanagement is a key contributor to small enterprise failure (Cunningham *1998*). Abilities of managers are important considerations in SME operations and can impact enterprise performance (Lubatkin et al. *2006*; Goll and Rasheed *2005*). Factors relating to income, work satisfaction, schedule, and flexibility shape motivation success measures for small enterprises (Greenbank *2001*). Additionally, the need for achievement, internal locus of control and a risk taking propensity are attributes contributing to the success of new business start-ups (Brockhaus *1982*). Similarly, qualities associated with a high need for achievement contribute to the success of new ventures (McClelland *1961*). An entrepreneurs' informal network, such as friends, relatives, previous employers, and acquaintances can provide support that can be beneficial to the business. Social network support is related to the survival and growth of newly founded companies (Brüderl and Preisendörfer *1998*).

In studying a sample of small rural entrepreneurs under the One-District-One-Industry (ODOI) program in Malaysia, the external factors are more dominant than the internal ones in contributing to the business success (Kader et al. *2009*). The external factors, including government assistance in training and extension services, the external environment, market support by the government, market accessibility, and networking, were seen as highly important by the rural entrepreneurs for their business success (Kader et al. *2009*), while the only important internal success factor was entrepreneurial quality. Other internal factors, such as pricing, delivery, services, and human resource contributed least to the explanation of small business success (Kader et al. *2009*). Specifically, with regard to the first external success factor, government assistance in training and extension services, the types of training needed by entrepreneurs in order to succeed were training in entrepreneurship, marketing, quality management, basic accounting, and technical skills (Kader et al. *2009*). Advisory services, business information, and technical knowledge were also rated highly (Kader et al. *2009*). Access to such training and education through government assistance is crucial for small rural entrepreneurs to achieve business success (Kader et al. *2009*).

The second success factor was entrepreneurial quality, an internal success factor which includes good entrepreneurial behavior and personal attributes, namely innovativeness, hard work, self-confidence, and self-reliance (Kader et al. *2009*). The third factor, the enabling environment (transportation infrastructure, communications, buildings, water and power supply, access to capital), are necessary inputs to rural development that create a favorable environment for small rural businesses to succeed. The fourth factor is related to marketing (Kader et al. *2009*).

Entrepreneurs with high personal initiative (self-start, proactive attitude, and capability to overcome barriers) contributed to the success and growth of their companies (Che Rose et al. *2006*). Entrepreneurs who have the necessary competencies, especially in the areas of operations, finance, marketing, human resources, and management are more likely to be successful at startup (Prahalad and Hamel *1990*). In addition to competencies and personality traits, human capital of individual entrepreneurs plays a role in contributing to the success of entrepreneurs (Lussiers and Pfeifer *2001*). Other studies found that entrepreneurs are significantly more innovative than non-entrepreneurs (Ho and Koh *1992*; Robinson and Sexton *1994*) and the entrepreneurs' personality traits impact organizational performance (Robinson and Sexton *1994*).

In addition, the concept of Entrepreneurial Orientation (EO) has been generally well accepted in the literature, especially in studies by Covin and Slevin *1989*; Miller and Friesen *1982*, and Wiklund and Shepherd *2003*. Entrepreneurial orientation of an enterprise is shaped by its competitive responses to the business environment (Porter *1980*). It is defined by the entrepreneur's propensity to innovate, take risks, and pursue proactive action (Miller and Friesen *1982*). It encompasses functions, activities, and actions related to opportunity perception and organizational creation (Bygrave and Hofer *1991*). Management of an enterprise determines its future course. In larger firms, entrepreneurial tendencies have shown to have impact

organizational efficiencies and management practices (Kuratko et al. *1990*). Consistent with several of the studies reported above, we expect an Entrepreneurial Orientation will also influence performance in our Malaysian sample of microenterprises. Therefore,

H2: Microenterprise performance will be affected by a firm's Entrepreneurial Orientation.

Entrepreneur characteristics, such as gender, education, age, managerial skills, and experience, in addition to physical and emotional family support, are important factors that influence business success (Kallerberg and Leicht *1991*; Rowe et al. *1993*; Masuo et al. *2001*), while business characteristics that affect business success are age, size, and location of business (Kraut and Grambsch *1987*; Kallerberg and Leicht *1991*). Specifically, entrepreneurs with higher education levels, industrial and managerial experience, and business exposure have a greater chance of succeeding than people without higher education, minimal industrial and managerial experience, and with little or no business exposure (Lussiers and Pfeifer *2001*). The main reason that SMEs fail at startup is the owner's lack of entrepreneurial competencies and skills (Kiggundu *2002*; Longenecker et al. *1999*). The main reason that SMEs fail in the early years of business is due to the owner's managerial shortcomings (Bruno et al. *1987*). While Rogoff et al. (*2004*) found that internal and external factors are determinants of business success, a majority of business failures were due to the lack of management skills or competencies (O'Neill and Duker *1986*; Terpstra and Olson *1993*). What management activities are the most significant for a microenterprise to succeed? The results of these studies lead us to hypothesis three that performance is related to various managerial activities of microenterprises. While management activities are broadly defined, we focused on activities that can be described as proactively undertaken and relevant to daily operational activities (Miller and Friesen *1982*; Kuratko et al. *1990*). Hence,

H3: Microenterprise performance is related to key management activities.

Malaysian microenterprise landscape

Entrepreneurs in Malaysia face challenges at both the environmental and firm levels. Environmental barriers include financial accessibility, business infrastructure, skilled labor supply, availability of materials, and information technology (Chee *1984*). The market is price-sensitive and competitive (US Commercial Service *2009*) and there are significant challenges pertaining to bribery, corruption, and the enforcement of intellectual property rights (Chee *1984*; US Commercial Service *2009*). Many small business owners lack proper education and training, and are not motivated to grow their business (Fong *1989*; Shome *2002*). Businesses are not well-networked and face operational difficulties (Li-Murray *1998*). Wages are relatively higher than those in China and Vietnam, and there is a tendency to rely on migrant labor for lower-level jobs (Malaysia Business Forecast Report *2010*). Business failure had been attributed to factors such as poor management, lack of qualified workers, poor timing, and inadequate knowledge of technology, supply sources, and markets (Mohayidin and Hamid *1988*; Fong *1989*; Julian and Ahmed *2009*).

A microenterprise is typically a small business with less than five full-time employees (SMIDEC *2011*). In terms of sales turnover a microenterprise in the agriculture or information and communication technology (ICT) sectors would be less than RM200,000 (US$66,063) a year. In manufacturing, sales turnover is typically less than RM250,000 (US$82,579) (SMIDEC *2011*). Microenterprise owners in rural areas are likely to get funding from personal savings, loans from friends and family members, the *Ah Loong* (loan shark) or pawnshops (Chan *2010*).

Product differentiation is the most important factor for survival (Hall and Wahab *2007*), while personal initiative was the most important factor for success (Che Rose et al. *2006*). Entrepreneurs with high personal initiative overcome their weaknesses with their self-starting and proactive attitude. However, there were no significant relationships between venture growth and human capital, social network support, and government support programs (Che Rose et al. *2006*). Conversely, Abdul Jamak et al. (*2010*) found that the *Orang Asli*aborigines do not have the business mindset to expand, diversify or take new opportunities, there is no pressure to make a profit and they willingly accepted their business outcomes. Furthermore, the *Orang Asli*aborigines refused to be displaced from their settlements and preferred doing business just for the sake of survival, and prefer to deal with the Chinese middlemen instead of dealing directly with end-users (Abdul Jamak et al. *2010*). Moreover, they lacked many skills, such as sales, marketing, and the ability to recognize opportunity (Abdul Jamak et al. *2010*).

The literature discussed above suggests our fourth and fifth hypotheses. We predict that an entrepreneurial orientation is related to several management activities and that smaller microenterprise will be more entrepreneurial than larger microenterprises. Hence,

H4: Entrepreneurial Orientation (EO) is related to management activities.

H5: Smaller microenterprises will be more entrepreneurial than larger microenterprises.

The hypothesized relationships are shown in Fig. 1.

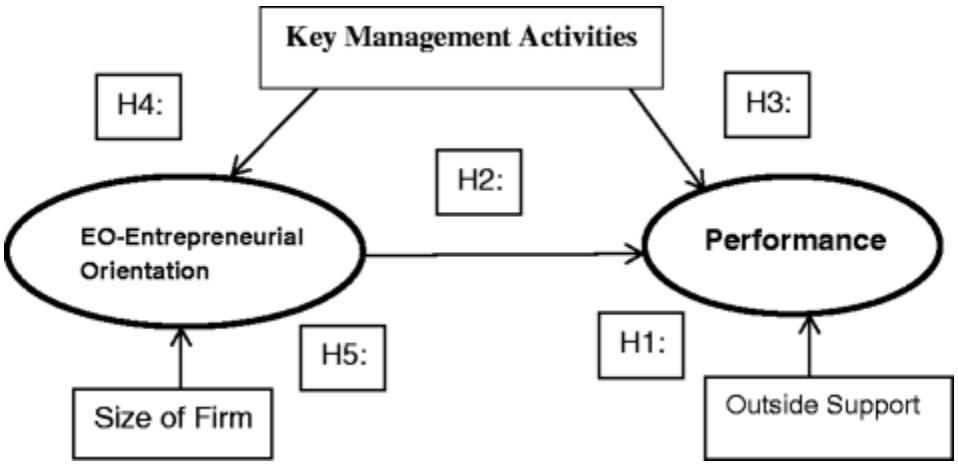

Fig. 1 Entrepreneurial Orientation and performance relationships

Methodology

Measures

A questionnaire on microenterprises and entrepreneurial orientation was developed consisting of four parts and was adapted from existing scales in the literature by Covin and Slevin (*1989*), Miller and Friesen (*1982*), and Wiklund and Shepherd (*2003*). Part one consists of questions relating to demographics. Part two includes questions on entrepreneurial orientation, risk taking, and performance. The four questions related to performance were adapted from Wiklund and Shepherd (*2003*). The respondents were asked to rate their outcome (i.e., net profit, growth of the company's value, cash flow, and development of sales) during the past 3 years compared to other businesses in their industry, with a 5-point Likert-type scale ranging from 1 (much worse) to 5 (much better) to assess the constructs.

The questions related to heterogeneity (meaning differences) were adapted from Miller and Friesen (*1982*). The respondents were asked if there are great differences in three questions (namely buying behavior of the customer, nature of competition, and market fluctuation and uncertainty) amongst the products/services they offer, with a 7-point Likert-type scale ranging from 1 (approximately the same for all products/services) to 7 (considerable difference between products/services) to assess the constructs. The last part of part two contains questions measuring entrepreneurial orientation adapted from Covin and Slevin (*1989*). There were three questions related to innovativeness, three questions related to pro-activeness and four questions related to risk taking, with a 7-point Likert-type scale to assess the constructs. The specific items in this part are shown in the Appendix.

Part 3 contains ten questions about activities respondents might have undertaken in preparation for the launching of the business (prior to registering the business). The questions include organized team of employees, priced facilities/equipment, rented or purchased facilities, invested own money, sought government support, devoted full time to business, conducted market research, applied for patent, formed legal entity and prepared a business plan. These questions were dichotomous response items (1 = Yes, and 0 = No).

Part 4 of the survey instrument contains 11 questions adapted from Zinger et al. (*2001*). Respondents were asked questions related to management activities based on a 0 to 100 scale—0 (very weak) to 100 (very strong). The questions include pricing, ability to develop and introduce new services or products, advertising and promotion, operations, financial management, business image, general management, business location, customer service, availability of competent staff and use of computer knowledge.

The performance scale had four variables (net profit, growth of company value, cash flow, and sales), was reliable with a coefficient alpha of 0.92. The heterogeneity scale had three items with

a coefficient alpha of 0.87, while Proactiveness had a satisfactory coefficient alpha of 0.85. Based on a factor analysis of the measure, we eliminated one item from the innovativeness scale, referring to whether the business emphasized marketing present products, but kept two items emphasizing research and development of new products, and achieved a coefficient alpha of 0.80. Risk taking had a coefficient alpha of 0.67, which is slightly less than the 0.70 often recommended. However, we considered it sufficiently reliable for our purposes. The number of items, means, standard deviations, and reliability coefficients are listed in Table 1.

Table 1 Means, standard deviations, reliabilities of EO variables ($n = 151$)

EO variables	No. of items	Mean	SD	Reliability coeff.
Risk taking	3	5.77	1.48	0.67
Proactiveness	3	2.47	1.41	0.85
Innovativeness	2	5.52	1.51	0.8
Heterogeneity	3	3.68	1.42	0.87

Data collection and respondents

The fieldwork of this research was carried out from July–October 2009. The sampling method employed for this research was an intercept survey. First, a postal survey was ruled out as Chan (*2010*) indicated that many microenterprise owners in Malaysia have received little education. Furthermore, unregistered businesses or newly set up businesses would be excluded from a postal survey. Second, this approach is the best given that it would be impossible to get a list of all microenterprises in the country. Thus, both registered and unregistered microenterprises were included in the study. No maximum number of employees was set since a business must exceed annual sales turnover of more than RM200,000 a year to be considered a small-and-medium sized business.

Microenterprise owners or managers were intercepted at the trading places and entrance to markets and meeting places. To cover the differences among the business owners engaged in diverse businesses, male and female business owners or managers were chosen to reflect a good cross-section of the population, although criteria such as age, marital status, social position, and income level were not considered. The respondents were from six states covering urban, rural and remote areas having taken into consideration the disparity in wealth, educational level, gender, power and other entrepreneurial factors that might influence the reasons for operating a business.

Prospective respondents were asked if they were operating a business and informed about the purpose of the study. Oral verbal consent was obtained from the willing participants. Structured, face-to-face interviews were then conducted so as not to exclude business owners who cannot read or write. Respondents' names were not recorded. One hundred fifty-one respondents answered all the questions.

Data analysis

The surveys were analyzed using descriptive statistics. A majority of the business owners were from the 40–54 age group. Slightly less than 50 % (49.7 %) were not officially registered businesses with the government at the time of the survey. This is part of the strong informal economy. In addition, more than half (51.7 %) had employees working for them. Correlation, cross-tabulation, and regression analysis were carried out. Correlation analysis is appropriate in understanding relationships between variables. Cross-tabulation (crosstabs) analysis summarizes categorical data to create a contingency table providing a basic picture of the interrelation between two variables and can help find interactions between them. Regression is a technique for predicting dependent variables using the most significant independent variables.

Results and tests of hypotheses

The first hypothesis, predicting that higher performing microenterprises sought outside support, was tested by crosstabs of performance with sought government support and with joining a trade association. Both of these items suggest the microenterprise was looking for outside help. Chi-Square results indicate "sought government support" was significantly related to Performance at $P = 0.045$ and "joining a trade association" was significant at $P = 0.004$ (See Table 2).

Table 2 Crosstabs/Chi-Square analyses

Hypothesis	**Dependent variable**	**Independent variables**	**Chi-Square**	**df**	***P***	**Supported/not supported**
H1:	Performance	Sought government support	4.35	1	0.045	Supported
		Joined trade association	7.83	1	0.004	Supported
H3:	Performance	MI-MGMT	71.35	34	<0.001	Supported
		MI-MKTG	58.45	36	0.010	Supported
		MI-Staff	56.42	24	<0.001	Supported

Regression analysis was significant at $F = 6.551$, $P = 0.002$, but the adjusted R^2 was 0.069, suggesting only a small amount of variance was explained (See Table 3). Taken together, H1 is supported, albeit somewhat weakly.

Table 3 Regression analyses

Hypothesis	**Dependent variable**	**Independent variables**	**Standardized beta**	**AdjR^2**	***F***	***P***
H1:	Performance	Joined a trade association	0.240**	0.069	6.55	<0.01
		Sought government support	0.122			
H2:	Performance	Risk Taking	0.297**	0.142	7.22	<0.001
		Proactiveness	0.432**			
		Innovativeness	−0.070			
		Heterogeneity	0.052			
H3:	Performance	MI – Management	0.117	0.175	11.61	<0.001
		MI – Marketing	0.374**			
		MI – Staff	−0.914			
H4:	EO – Risk taking	MI – Management	0.297**	0.235	16.38	<0.001
		MI – Marketing	−0.173			
		MI – Staff	−0.504**			
	EO – Proactiveness	MI – Management	−0.024	0.408	35.43	<0.001
		MI – Marketing	0.442**			
		MI – Staff	0.399**			
	EO – Innovativeness	MI – Management	0.173	0.111	7.25	<0.001
		MI – Marketing	−0.269**			

		MI – Staff	−0.281**			
	EO – Heterogeneity	MI – Management	0.022	0.231	16.03	<0.001
		MI – Marketing	0.460**			
		MI – Staff	0.946			

**$P < 0.01$

The second hypothesis predicts that microenterprise performance will be affected by a firm's entrepreneurial orientation. We tested this relationship in several ways. First, ANOVA indicated that all relationships between EO and performance were significant at $P < 0.05$ or better. Regression analysis indicated that performance was predicted by Risk Taking and Proactiveness, but not by Innovativeness or Heterogeneity ($R^2 = 0.142$, $F = 7.222$, $P < 0.001$) (See Table 3). Taken together, the results partially support our second hypothesis.

The analysis of the third hypothesis, microenterprise performance is related to key management activities is shown in Table 4. As predicted, we find significant correlations of performance with the following management activities: ability to develop and introduce new services or products, advertising and promotion, operations (inventory control, purchasing, delivery, etc.), financial management (monitoring accounts receivable and cash flow, projected financial statements, etc.), business image, general management (delegating, using information technology, monitoring external trends), and customer service.

Table 4 H3: Correlation between performance and key management activities ($n = 151$)

Key management activities	**Performance**
Q49a. Pricing	0.158
Q49b. Develop products	0.265**
Q49c. Advertising and promotion	0.506**
Q49d. Operations	0.304**
Q49e. Financial management	0.201*
Q49f. Business image	0.195*
Q49g. General management	0.282**
Q49h. Business location	0.130

Q49i. Customer service	0.269**
Q49j. Competent staff	−0.028
Q49k. Computer technology	0.082

*$P < 0.05$, **$P < 0.01$

In order to further test H3, we factor analyzed the 11 Key Management Activities, resulting in three factors explaining 62 % of the variance. We labeled the factors MI – MGMT, consisting of managerial activities, such as operations, financial management, business image, and general management; MI – MKTG, consisting of pricing, developing products, advertising & promotion, and customer service; and MI – Staff, consisting of business location, competent staff, and computer technology. Using a median split, we recoded the Management Activities factors into high and low.

Crosstab analysis with Chi-Square tests indicated high performance microenterprises tended to have higher MI – MGMT scores ($P < 0.001$), higher MI – MKTG scores ($P = 0.01$), and higher MI – Staff scores ($P < 0.001$) (See Table 2).

Linear regression indicated that Performance could be parsimoniously predicted using only MI – MKTG, with an adjusted R^2 of 0.135, $F = 24.438$, $P < 0.001$. Taken together, the analysis supports H4, that microenterprise performance is related to key management activities, especially MI – MKTG (See Table 3).

Our fourth hypothesis, Entrepreneurial Orientation (EO) is related to management activities, is tested by correlation analysis and by regression. There were significant correlations between MI – MGMT and Proactiveness and Heterogeneity (all $P < 0.01$), but not with Risk Taking or Innovativeness. MI – MKTG was correlated with Proactiveness, Heterogeneity, negatively with Innovativeness, but not with Risk Taking. Finally, MI – Staff was correlated positively with Proactiveness and Heterogeneity, but negatively with Risk Taking and Innovativeness.

Regression analyses indicated Risk Taking was predicted by MI – MGMT, MI – MKTG, and MI – Staff, with adjusted $R^2 = 0.235$, $F = 16.377$, $P < 0.001$. Proactiveness was predicted by MI – MKTG and MI – Staff, adjusted $R^2 = 0.408$, $F = 35.432$, $P < 0.001$. Innovativeness is predicted by MI – MGMT, MI – MKTG, and MI – Staff, adjusted $R^2 = 0.111$, $F = 7.254$, $P < 0.001$. Finally, Heterogeneity is predicted by MI – MKTG, adjusted $R^2 = 0.231$, $F = 16.031$, $P < 0.001$. The correlation analysis and regression analyses tend to support H4 (see Table 3).

The last hypothesis, H5, tested whether smaller microenterprises, as measured by number of employees, will be more entrepreneurial than larger microenterprises. Microenterprise size is negatively correlated with risk taking, and positively correlated with Proactiveness and performance (Table 5).

Table 5 H5: Relationship between microenterprise size and Entrepreneurial Orientation ($n = 151$)

Entrepreneurial Orientation items:	Number of employees
Risk taking	−0.216**
Proactiveness	0.285**
Innovativeness	−0.076
Heterogeneity	0.091

**$P < 0.01$

The average number of employees in our sample was 1.85, so we used a split of microenterprises with two or more employees and less than two. A comparison of means (*t*-test) is shown in Table 6. Significant differences between the means of the groups were found for risk taking ($P < 0.01$) with smaller firms more prone to less Risk Taking, Proactiveness ($P < 0.10$), with smaller firms less likely to be proactive, and with Innovativeness ($P < 0.05$), with smaller firms tending to be more innovative. Other differences between means were not significant. Thus, our hypothesis is partially supported.

Table 6 H5: Comparison between microenterprise size and Entrepreneurial Orientation (*t*-tests)

Entrepreneurial Orientation	>= 2 employees		<2 employees		*t*	df	Sig. (2-tailed)
	N	Mean	*N*	Mean			
Risk taking	59	5.2966	92	6.0797	−3.264	149	0.001
Proactiveness	59	2.7175	92	2.3188	1.701	149	0.091
Innovativeness	59	5.2119	92	5.7228	−2.055	149	0.042
Heterogeneity	59	3.6893	92	3.6667	0.095	149	0.924

Discussion

We found that our hypotheses, which were based on previous research, were mostly supported, indicating that our Malaysian sample of microenterprise respondents was generally consistent with other samples found in the literature, but there were differences. From our first hypothesis, we learned that higher performing microenterprises did seek outside help, but primarily from associations with other businesses in the industry. Government support was used to a lesser extent. This mirrors findings on women entrepreneurs in emerging economies that seldom utilized government support (Welsh et al. *2013a*, *b*, *c*).

Our second hypothesis supported our notion that performance is related to Entrepreneurial Orientation, but not equally. The EO factors most related to performance in our study were Risk Taking and Proactiveness. Innovativeness and Heterogeneity did not seem to contribute directly to performance. This may be related to the fact that Malaysia is an emerging country with limited ability to innovate and be heterogeneous, especially in rural areas.

In our third hypothesis, we found that microenterprise performance was indeed related to key management activities, individually as well as in combination. Crosstab analysis indicated performance was related to each of the three management activities factors, while regression suggested that marketing activities were more likely to predict performance. However measured, it does appear that management activities do affect performance. This finding could have implications for microenterprise training programs in specific areas of management training that are sorely needed and would have a major impact on sustainability and success of the microenterprises.

The fourth hypothesis examined the influence of management activities on entrepreneurial orientation (EO). Each of the four EO factors—Risk Taking, Proactiveness, Innovativeness, and Heterogeneity were related to at least some of the management activities. We suggest that EO can influence the importance of different management activities. Since EO is not one-dimensional in our study, in contrast to some other studies, it is not inconsistent to find that EO factors are related to different management activities.

In our fifth and final hypothesis, we predicted that size of microenterprise might influence EO. Given that the average size of the microenterprises in our sample was less than two employees, the differences between small and larger microenterprises were difficult to discern. We did find that smaller firms (<2 employees) seemed to be less risk averse and more innovative than the larger microenterprises.

Implications

The findings enhance our understanding of the factors affecting microenterprises' EO and key management activities. There are several implications of the findings. First, the survey findings indicate that management of the microenterprise is a key contributor to business success and should factor into policy considerations. Studies suggest that environmental challenges would require changes in management competencies (Michel and Hambrick *1992*).

Second, microenterprises will continue to grow and define the future of many countries, including Malaysia. Given that economic growth in years to come will be shaped by microenterprises (The Futurist *2003*), the success of microenterprise activity lies largely on governance and the role institutional forces play. Although the findings showed that performance was not influenced by outside finances or by government support, future microenterprise development requires both financial and non-financial support to develop their businesses and expand into new markets (Goldmark *2001*). While the growth of microenterprises in Malaysia suggests a future for microfinance and microenterprise initiatives, the government's commitment in terms of the number of ministries and agencies' effort have not been translated into effective actions. Support facilities should be provided at the individual level, and not be fragmented. This means a more focused approach that meets the needs of microenterprises is necessary. Thus, a

central coordinating body that will manage the effort and create an overall master development will be useful.

Third, given that Malaysia is a multicultural and multiethnic country, the existing agencies may find it challenging to reach out to all intended targets. Personalized entrepreneurial training for each of the intended target groups must be developed. For instance, tools and technique in training the Orang Asli to become good sales people may not be the same as urban microenterprise owners, as many Orang Asli are lowly educated and laid back in nature. More importantly, there is no such thing as the pressure to make profit for the Orang Asli who willingly accept the results of their businesses regardless of the level of success (Abdul Jamak et al. *2010*). Furthermore, many do not know the practice of negotiating or haggling for prices with potential customers (Abdul Jamak et al. *2010*). Therefore, cultural differences need to be taken into consideration with training programs. As such, attention should also be paid to entrepreneurial efforts of each target group including those in the rural and remote areas. Lastly, given the limited studies on microenterprises, further research and collaboration between academics and the government should also be encouraged so that more microenterprises will continue to flourish. This includes funding for studies and research that may determine program offerings that better impact the success and sustainability of microenterprises.

Limitations and recommendations for future research

One of the limitations of this study is the convenience sampling of respondents through the intercept approach and the small sample size due to the limited resources for data collection. This approach could potentially produce results that may not be representative of the microenterprises in the country. However, respondents covering the city, urban, and remote areas in six states were included, so it is hard to see where very extensive bias could enter in.

Second, the use of self-report to measure EO, although supported by previous research and literature, may have influenced the findings. However, as noted above, asking people to use a 0 to 100 % scale may be problematic. Given the theoretical and practical importance of the results, and the high likelihood that these two activities are not major activities in this context, we believe that the contributions of this study outweigh the limitations.

Third, although this paper did not set out to determine ethnic and socio-demographic differences, it would be worthwhile for future researchers to determine whether such differences exist. Given that easy access to microloans is a major factor in microenterprise creation, that the government’s pro-poor efforts to provide microfinance for enterprises at lower costs, and that many Bumiputra (Malay) entrepreneurs and micro-entrepreneurs had the “crutch” (dependency) mentality, investigating the extent to which entrepreneurial experience differs for Bumiputra and non-Bumiputra might shed light on potential differences between ethnic groups. In addition, gender and educational background of the owner can influence the microenterprise level of Innovativeness, Proactiveness, and Risk Taking.

Additionally, the extent to which the microenterprise owners used information communication technologies cannot be ignored given the increasing interconnectedness of the business environment. Do Innovativeness, Proactiveness, and Risk Taking (EO) owners use online-business related transactions and research, and emerging social technologies such as instant messaging, chat, blogging, or Twitter to expand the business beyond the immediate geographical boundary the business is operating in? Do rural microenterprises have easy access to technological support, and more importantly market access for their product and services? Answers to these questions may contribute to our knowledge on developing successful, sustainable microenterprises. Finally, it may be necessary to validate the findings of this study by including respondents from all 14 states and by replicating in other countries using quota sampling involving respondents from all industries so that findings are generalizable. Such studies could provide a clearer picture of the customer segment.

Academic literature has pointed to the relevance of resource utilization to entrepreneurial disposition and gaining of enterprise competitive advantages (Covin and Slevin *1986*; Peteraf *1993*; Knight *1997*; Herbert and Brazeal *1998*). There are opportunities for future researchers to explore other factors that link entrepreneurial orientation and microenterprises. For instance, examining approaches beyond resource, opportunity, or entrepreneurial viewpoints may be beneficial. There is evidence of interconnection between managerial approach and entrepreneurial orientation in small business (Naman and Slevin *1993*; Hornsby et al. *2002*). Testing and reframing existing management theories within the small enterprise framework could lead to groundbreaking findings and theoretical refinements.

Conclusion

Microenterprises do positively impact economies. In societies with high unemployment, workers who lose their jobs tend to become self-employed and eventually positively impact the economy (The Herman Group *2003*). In “AEO Calls for Full Funding of PRIME,” a Business Wire press release, Association for Enterprise Opportunity (AEO) President Connie Evans pointed out that microenterprise growth is a pathway toward economic recovery due to associated business expansion and job creation (*2009*). In this study, a majority of the microenterprise owners were from the 40–54 age group, slightly less than 50 % (49.7 %) were not registered, and slightly more than half (51.7 %) have employees working for them. The results indicated that performance and Entrepreneurial Orientation were significantly affected by key managerial activities. Since microenterprise activities provide marginalized sectors and budding entrepreneurs hope for the future (Panjaitan-Dioadisuryo and Cloud *1999*), the microentrepreneur’s ability to manage their microenterprise successfully is a gateway to prosperity. Governments hold the key to the success of these microenterprises by policies and practices that can pave the way for sustainability and future growth and the ability to build a better future for their citizenry and their economy.

Appendix: Survey instrument of EO items

Please circle the answer that is correct for you.

Heterogeneity		
1. Buying behavior of the customers		
Approximately the same for all products	1 2 3 4 5 6 7	Considerable difference between product
2. Nature of the competition		
Approximately the same for all products	1 2 3 4 5 6 7	Considerable difference between products
3. Market fluctuations and uncertainty		
Approximately the same for all products	1 2 3 4 5 6 7	Considerable difference between products
Innovativeness		
4. Generally our business prefers to…		
Strongly emphasize the marketing of the business's present products.	1 2 3 4 5 6 7	Strongly emphasize Research & Development.
5. How many new kinds of products or services has your company introduced over the past 5 years?		
A lot of new products/services.	1 2 3 4 5 6 7	No new products/services.
6. The changes of the business's products/services have been radical.	1 2 3 4 5 6 7	There has been small changes of the present products/services.
Proactiveness		
7. Our business's relation toward competitors:		
Normally we react upon initiatives taken by our competitors.	1 2 3 4 5 6 7	Normally we initiate changes upon which our competitors react.
8. Our business is seldom the first one to introduce new products or services, administrative systems, methods of production, etc.	1 2 3 4 5 6 7	Our business is very often the first business to introduce new products/services, administrative systems, methods of production etc.
9. Normally our business tries to avoid	1 2	Normally our business takes on a very

overt competition, but rather takes on a "live-and-let-live"-position.	3 4 5 6 7	competitive oriented "beat-the-competitor"-position.
Risk Taking		
10. Generally our business has . . .		
A strong tendency toward projects with low risk (with normal and secure yield).	1 2 3 4 5 6 7	A strong tendency toward getting involved in high risk projects (with a chance for high yield).
11. Generally we believe that . . .		
The business environment of the business is such that fearless and powerful measures are needed to obtain the business's objectives.	1 2 3 4 5 6 7	The business environment of the business is such that it is better to explore it carefully and gradually in order to achieve the business's objectives.
12. When we are facing insecure decision-making situations . . .		
We normally take up a fearless, aggressive position, in order to maximize the chance of being able to exploit possible opportunities.	1 2 3 4 5 6 7	We normally take up a cautious "wait-and-see" position in order to minimize the hazard of making costly erroneous decisions.

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