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Entrepreneurial Motivation Linking Entrepreneurial Motivation, Related Experience, Environment Hostility with Financial Success

Issham Ismail, Robitah Spian, Goh Kong Tay

School of Distance Education, Universiti Sains Malaysia, 11800 Penang, Malaysia

Email: iytadiyanz@gmail.com

Abstract

This research explores the relationship among entrepreneurial motivation, related experience, environment hostility and financial success, among small retail business owner managers in Penang, Malaysia. Entrepreneurial motivation was categorized into 5 dimensions which are self-development, wealth creation, need for autonomy, push factors and lifestyle change. This study showed that financial success was explained by four dimensions of entrepreneurial motivation (in descending order of importance): self-development, wealth creation, need for autonomy and push factors. While, related experience was positively related to the financial success of small businesses. However, lifestyle change was found not an entrepreneurial motivation for financial success. This study found that environment hostility did not moderate the relationship among entrepreneurial motivation, related experience and financial success, and apart from self-development, there was no difference based on ethnic background. Further research can be conducted to investigate and verify the influence of the factors on the entrepreneurship in Malaysia.

Keywords: Entrepreneurial Motivation, Financial Success, Related Experience, Environment Hostility

Introduction

As at 2006, there are more than half a million of SMEs (small and medium-sized enterprises) in Malaysia, accounting for 99.2% of total number of businesses. (Bank Negara Malaysia: SME report 2006). According to Culkin and Smith (2000), small businesses make up the largest business sector in every world economy. Since the 1970s, small businesses have replaced big businesses as the key drivers of economic and employment growths in most OECD countries (Peacock 2004). Governments around the world are increasingly supporting and promoting SMEs (Abdullah et al., 2000). Restructuring of large firms since the early 1980s resulted in reduction of jobs. Excess employees have been absorbed into SMEs (Storey, 1994).

Similar to many other countries in the world, SMEs are expected to play an important role in the economic and employment growths of Malaysia. "There is vast opportunity to increase SME contribution to domestic economy" (Bank Negara Malaysia: SME Annual Report 2006). SMIDEC

(Small and Medium Industries Development Corporation of Malaysia) classifies enterprises as micro, small or medium based on the annual sales turnover or the number of full-time employees, as shown below in manufacturing, manufacturing-related services and agro-based industries: Micro enterprises are enterprises with annual sales turnover of less than RM250, 000 or with number of full-time employees of less than five. Small enterprises are enterprises with annual sales turnover of RM250, 000 – 1 million or with number of full-time employees of 5 – 50. Medium Enterprises are enterprises with annual sales turnover of RM 10 – 25 million or with number of full-time employees of 51 – 150.

In services, primary agriculture and information & technology industries classifies micro enterprises as those with annual sales turnover of less than RM200, 000 or with number of full-time employees of less than 5. Small enterprises are enterprises with annual sales turnover of RM200, 000 – 1,000,000 or number of full-time employees of 5 – 19. Medium enterprises are enterprises with annual sales turnover of RM 1 – 5 million or with number of full-time employees of 20 – 50 SMIDEC (2009). However, although SMEs account for 99.2% of total numbers of businesses in Malaysia (SME performance report, 2005) many small businesses are plagued with failures and poor performance (Jocumsen 2004). SMEs contributed to only 32% and 19% of Malaysia's GDP and total exports respectively (Bank Negara Malaysia: SME report 2006). The failure rate of new small businesses was reported to be 70% (Steiner and Solem, 1988). Almost 20% of new small businesses were gone by the end of the first year, and 60% were gone by the end of the fifth year (Nucci, 1999). Furthermore, many survivors only achieve marginal performance (Cooper et al., 1991). According to Chin (2006), as at September 2004, there were 23,774 SMEs in Penang, out of which 14,270 were in the wholesale or retail sector. Nationwide, 46.4% of the SMEs in Malaysia were in the retail business (Miti, 2005). Therefore, important to study the reasons behind the high failure rate and low performance among small businesses, especially in the context of the retail sector of SMEs. The success of a business was traditionally measured by its financial performance (Ibrahim and Goodwin, 1986; Kalleberg and Leicht, 1991; Barkham et al., 1996; Forsaith and Hall, 2000). Profit maximization and growth were considered as "rational behavior" in business (Shepherd and Wiklund, 2005).

The failure rate of small businesses is reported to be 70% (Michael et al., 1988). Nucci (1999) added, almost 20% of new small businesses were gone by the end of the first year, and 60% were gone by the end of the fifth year. Furthermore, Cooper et al (1991) reported that many survivors only achieve marginal performance. While in Malaysia, SMEs contributed to only 32% and 19% of Malaysia's GDP and total exports respectively (Bank Negara Malaysia: SME report 2006). Therefore important to study the reasons behind the high failure rate and low performance among small businesses especially in the context of Malaysian economy.

The research questions demand attention because the findings could influence practice and policy e.g. they could alter consultancy given to small business owner-managers, grants and government subsidies provided to small businesses, economic forecasts on the performance and growth of small businesses, financing decisions and suppliers' credit decisions. The study will contribute to the body of knowledge in small business entrepreneurship concerning owner-manager motivations in relation to small business wealth creation and success.

Literature Review

The success of a business is traditionally measured by its financial performance (Ibrahim and Goodwin, 1986; Kalleberg and Leicht, 1991; Barkham et al., 1996; Forsaith and Hall, 2000). Profit

maximization and growth are considered as “rational behavior” in business (Shepherd and Wiklund, 2005). Ahmad (2007) researched on entrepreneurial success based on five criteria: profitability, sales turnover, sales growth, return on investment and market share.

Typically, small business owner managers are motivated by a combination of Pull and Push factors (Granger et al, 1995; Hughes, 2003). Wang et al. (2006) conducted a survey using 17 common motivations of owner-managers and reported that the main motivations for owner-managers for going into small businesses can be categorized as (in descending order of importance): self-development, wealth creation, push factors and lifestyle change. Ahmad (2007) categorized entrepreneurial motivations into five dimensions: self-development, wealth creation, and need for autonomy, push factors and lifestyle change.

Researcher associated self-development with desire for greater personal development, sense of self-achievement and passion of seeing business grow; wealth creation with desire to generate more income, grow own business and create wealth; need for autonomy with desire to have control over what one is doing, desire for the challenge of having own business, to be own boss and to make own rules; push factors with economic depression, dissatisfaction with former job, frustration with the level of income in the former job, work pressure due to downsizing, lack of job security and unemployment; lifestyle change with desire for flexible working life, desire for a balanced lifestyle and a balance between work and family (Ahmad, 2007).

Steiner and Solem (1988) found that all the owner-managers of successful small businesses they have surveyed have prior experience in a related business, compared to 75% of the owner-managers in less successful small businesses, and age and education of the owner-managers do not appear to be related to the success of the small businesses. Everette and Watson (1998) estimated that macroeconomic factors explain between 30 and 50 percent of business failures.

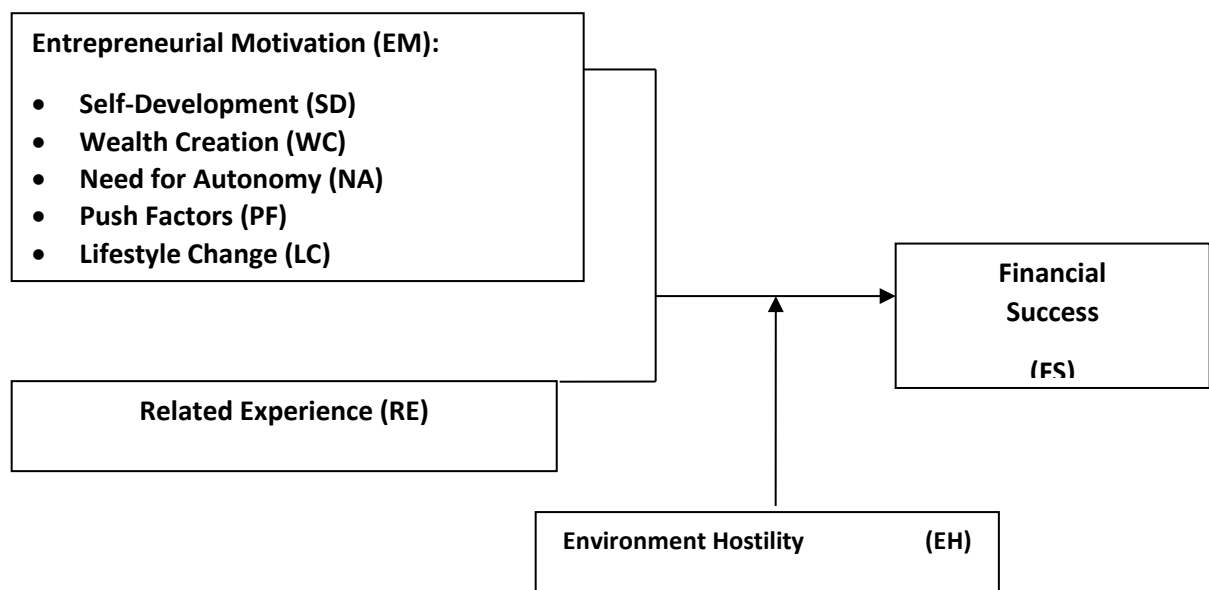


Figure 1. Theoretical framework proposed for the study

Methodology of Research

Profiles of Respondents

40 small and medium entrepreneurs have been selected as the respondents for this study. The demographic profiling for this respondents are; 50% Malays and 50% Chinese, 90% are in the range of 20-50 years old, 67% are males, 85% are married, 80% started business at the age of 20-40 years old, 77.5% have secondary or diploma education.

Research Instrumentation

The research instrument consists of a questionnaire designed to collect information on demographics and information on entrepreneurial motivations, environment hostility and financial success. The questionnaire was adopted and modified from various sources, as shown in table below:

Section	Items	Source
Financial Success, FS	FS 1 - 5	Gupta and Govindarajan (1984)
Environment Hostility, EH	EH 1 – 6	Covin and Slevin (1991)
Entrepreneurial Motivation, EM	EM 1 – 18	Ahmad (2007)
Demographics, DG	DG 1 – 9	Self-developed (2010)

Questions for financial success based on financial figures are deliberately avoided since entrepreneurs are reluctant to disclose such figures (Kang, 2009).

Data Collection Procedure

The population consists of the small retail business owner-managers operating in two small adjacent towns - Taman Perda and Taman Chai Leng in Penang, Malaysia. Questionnaires were given to 40 consented small retail business owner-managers and filled by the respondents in the presence of the researcher who is present to answer any queries. An attempt was made to include as many different types of retail businesses as possible. Respondents comprise of 33 types of small retail businesses included 20 Malay and 20 Chinese entrepreneurs so that any possible differences in relation to ethnic background can be studied.

Dependent Variable

Financial Success, F

Financial Success is increasing the financial value of a small business in terms of profit margin, sales turnover, sales growth, market share and return on investment. Respondents are required to answer a 5-item questionnaire to assess the financial success of their businesses for the past two years based on a 5-point Likert scale adopted from Gupta and Govindarajan (1984) and Ahmad (2007).

Independent Variables

Entrepreneurial Motivation, EM

An 18-items questionnaire adopted from Ahmad (2007) was used to categorize entrepreneurial motivations into five dimensions which are:

Self-Development

Self-Development means utilizing and increasing the talents, skills and knowledge which an individual possesses so as to achieve personal ambitions.

Wealth Creation

Wealth creation is desire to generate more income, grow own business and create wealth. The aimed is to increase the net present value of a business

Need for Autonomy

Need to be able to make independent decisions, make one's own rules and be one's own boss.

Push Factors

Push factors is workplace dissatisfactions which cause an individual not to go into business, such as low pay, loss of dignity, unemployment etc.

Lifestyle change

Desires for changes in lifestyle that cause an individual to go into business e.g. more flexible working hours, frequent vacations etc.

Related Experience, RE

The working, training and educational experiences of an owner-manager which are related to his/her work as an owner manager. A 3-item self-developed questionnaire is provided to the respondents to assess their related experience.

Moderating Variable

1. Environment Hostility, EH

Environment Hostility means threats from the external environment, such as decline in demand for the products and tough price competitions, which have a negative influence on the financial success of the business. A 6-item questionnaire adopted from Covin and Slevin (1991) is provided to the respondents to assess their environment hostility.

The Study

The research questions were:

1. What are the entrepreneurial motivations of successful small business owner-managers in the retail sector?
2. What is the effect of related experience of the small business owner-managers in the retail sector on the financial success of their businesses?
3. What is the moderating effect of environment hostility on the relationship between entrepreneurial motivations, related experience and financial success of small businesses in the retail sector?
4. Is there any difference due to ethnic background?

Results

Table 1. Regression Analysis between Entrepreneurial Motivation and Financial Success

	Standardized Beta
Self-development	.446***
Wealth creation	.299*
Lifestyle change	-.047
Need for autonomy	.296**
Push factors	.178*
R Square	.798
Adjusted R Square	.768
F	26.848***

Note: *p<0.05; **p<0.01; ***p<0.001

Summary of Multiple Regressions between EM and FS

Hypothesis	Result
H1 Entrepreneur Motivation is positively related to financial success.	
H1a Self-development is positively related to financial success.	Accepted
H1b Wealth creation is positively related to financial success.	Accepted
H1c Need for autonomy is positively related to financial success.	Accepted
H1d Push factors is positively related to financial success.	Accepted
H1e Lifestyle change is negatively related to financial success.	Accepted

The results of the regression analysis undertaken to test the five hypotheses of this study was reported in Table 1. The model was significant (F=26.848; p value < 0.001). Five independent variables were entered into the regression, the coefficient of determination (R²) was found to be 0.79, indicating that 79 percent of financial success was explained by the five dimensions of entrepreneur motivation. The remaining 21 percent was unexplained in this model. From the regression analysis, it can be observed that self-development ($\beta = .446$; $p < 0.001$), Wealth creation ($\beta = .299$; $p < 0.05$), Need for autonomy ($\beta = .296$; $p < 0.01$), and Push factors ($\beta = .178$; $p < 0.05$) have significant influenced on financial success. Thus, H1a, H1b, H1c, and H1d are accepted. Self-development has strong explanatory power among other independent variables. Meanwhile, lifestyle change has no relationship with financial success ($\beta = -.047$; $p > 0.05$). H1e was rejected.

Table 2. Regression Analysis between Related Experience and Financial Success

	Standardized Beta
Related Experience	.343*
R Square	.117
Adjusted R Square	.094
F	5.050*

Note: *p<0.05; **p<0.01; p<0.001

Summary of Multiple Regressions between RE and FS

Hypothesis	Result
H2 Related Experience is positively related to financial success	Accepted

The results of the regression analysis undertaken to test Related Experience on Financial Success are in Table 2. The model was significant (F=5.050; p value < 0.001). The coefficient of determination (R²) was found to be 0.11 indicating that 11 percent of financial success was explained by the related experience. From the regression analysis, it can be observed that related experience ($\beta = .343$; $p < 0.05$) does have significant influence on financial success. H2 was supported.

Table 3. Hierarchical Regression among EM, EH and FS

	Model 1	Model 2	Model 3
Self-development (SD)	.446***	.449***	.275
Wealth creation (WC)	.299*	.290*	-.018
Lifestyle change (LC)	-.047	-.039	.292
Need for autonomy (NA)	.296**	.294**	-.493
Push factors (PF)	.178*	.139	.153
Environment Hostility (EH)		.043	-1.990
SDXEH			.321
WCXEH			.773
LCXEH			-.553
NAXEH			1.774
PFXEH			.081
R Square	.798	.798	.834
Adjusted R Square	.768	.762	.769
F	26.848	21.755	12.809
F Change	26.848	.048	1.217

Note: * $p < 0.05$; ** $p < 0.01$; $p < 0.001$

Summary of hierarchical regression among EM, EH and FS

Hypothesis	Result
H3 Environment Hostility moderates the relationship between Entrepreneur Motivation and Financial Success	
H3a Environment Hostility moderates the relationship between Self-Development and Financial Success	Rejected
H3b Environment Hostility moderates the relationship between Wealth Creation and Financial Success	Rejected
H3c Environment Hostility moderates the relationship between Lifestyle Change and Financial Success	Rejected
H3d Environment Hostility moderates the relationship between Need for Autonomy and Financial Success	Rejected
H3e Environment Hostility moderates the relationship between Push Factors and Financial Success.	Rejected

The hypotheses generated for moderating variable were tested using hierarchical regression analysis. The results were presented in Table 3. The first model was tested with the five independent variables. The model 1 was significant with F value of 26.848 and p value less than 0.001. The coefficient of determination (R^2) was found to be 0.79 indicating that 79% of financial success was explained by the independent variables. Four independent variables were found to be positively related with dependent variables.

In model 2, by adding the moderator variable, R^2 remains 79.8 percent and the model was significant (F value = 21.755; $p < 0.001$). This model showed that three independent variables were positively related with dependent variable. However, the moderator variable entered did not give contribution to the model.

Model 3 was entered together with interaction terms. The model was good with F value 12.809 and significant at $p < 0.001$. R^2 increased to 83.4 percent. Adjusted R^2 (.769) was significant. This implies that the additional 76.9% of the variation in financial success was explained by five independent variables, one moderator and five interaction terms. From the model three, it can be observed that there was no interaction between independent and dependent variables. No graph can be drawn to see the interaction between related variables.

Table 4. Hierarchical Regression among RE, EH and FS

	Model 1	Model 2	Model 3
Related Experience	.343*	-.196	-.677
Environment Hostility (EH)		.573	-.044
REXEH			1.096
R Square	.117	.156	.184
Adjusted R Square	.094	.110	.116
F	5.050	3.410	2.712
F Change	5.050	1.679	1.266

Note: * $p < 0.05$; ** $p < 0.01$; $p < 0.001$

Summary of hierarchical regressions among RE, EH and FS

Hypothesis	Result
H4 Environment Hostility moderates the relationship between Related Experience and Financial Success	Rejected

The objective is to test whether Environment Hostility has moderating effect on the relationship between Related Experience and Financial Success. The model 1 was significant with F value of 5.050 at p value less than 0.05. The coefficient of determination (R^2) was found to be 0.11 indicating that 11% of Financial Success was explained by the independent variables. The related experience was found to be positively related with dependent variable.

In model 2, by adding the moderator variable, R^2 improves 15.6 percent and the model was significant (F value = 3.410; $p < 0.05$). This model showed that Related Experience was not related with dependent variable. However, the moderator variable entered did not give contribution to the model.

Model 3 is entered together with interaction terms. The model was not significant with F value 12.809. R^2 increased to 18.4 percent. From the model three, it can be observed that there was no

interaction between independent and dependent variable. No graph can be drawn to see the interaction between related variables.

Table 5. T-tests related to ethnic background

	Ethnic	Mean	F	Sig
Self-development	Malay	4.3333	5.290	.027
	Chinese	4.1667		
Wealth creation	Malay	4.6333	.506	.481
	Chinese	4.4167		
Lifestyle change	Malay	4.3000	.481	.492
	Chinese	3.9333		
Need for autonomy	Malay	4.3833	1.066	.308
	Chinese	4.1333		
Push factors	Malay	3.2500	.530	.471
	Chinese	2.5417		
Related Experience	Malay	3.4833	.280	.600
	Chinese	2.6167		
Environment Hostility	Malay	3.7250	.318	.576
	Chinese	2.8250		
Financial Success	Malay	4.3300	.036	.850
	Chinese	3.8800		

Summary of t-tests related to ethnic background

Hypothesis	Result
H5 There is no difference based on ethnic background	Partly Accepted

The independent t- test (table 5) was conducted to assess whether the means of Malay and Chinese groups are statistically different from each other on major dimensions. Self Development has statistical difference between two ethnic groups ($F=5.290$; $p<0.05$). Wealth creation ($F=.506$; $p>0.05$), Lifestyle change ($F=.481$; $p>0.05$), Need for autonomy ($F=1.066$; $p>0.05$), Push factors ($F=.530$; $p>0.05$), Environment Hostility ($F=.318$; $p>0.05$) and Financial Success ($F=.036$; $p>0.05$) have no significant difference between Malay and Chinese entrepreneurs.

Discussions

This study indicated the entrepreneurial motivations of successful small business owner-managers in the retail sector were positively influenced by self-development, wealth creation, need for autonomy and push factors. These findings are supported by Wang et. al (2006) who reported that small business operators motivated by personal development goals that can encourage them to strategically plan to gain more profit (i.e., 'push' and flexible lifestyle). According to Wang, personal development goals relate to the need for self-development, personal challenge, recognition and the desire to use and further enhance personal skills and knowledge.

Additionally, same study reported that the success of any business is measured in terms of financial performance such as, profit, turnover, return on investment and etc. These results also agreed by

Barkham, et al., and (1996). However, this study concludes that lifestyle change was not a motivation of financial success of entrepreneur. The finding is supported by C. Wang et. al, implied that entrepreneurs more likely to engage in strategic planning rather than motivated by lifestyle change in order to achieve financial goals.

Another riveting result of this study led one to conclude that, 70% respondents say that related experience and training help them to a moderate or large extent, and 57.5% say that related education helps them to a moderate or large extent. It was proven statistically that related experience was positively related to financial success of small businesses in the retail sector. This concurs with the findings of Steiner and Solem (1988) and Kang (2009) reported that managerial experience and previous experience in a similar type of business, likewise the adoption of new manufacturing technologies, and the availability of resources to seize new technology, and the development of a competitive advantage were firmly related to the entrepreneur success.

Another finding in this research has revealed that environmental hostility was not related to financial success of small businesses in the retail sector. This could be due to strong support e.g. from the government. The main finding of study by Mohamad Rashid,(2008) shows that the entrepreneurs who had succeeded in receiving the assistance from government believes that they are more fortunate now than they were before. Contrary research by E. Solymossy (1998) reported that the entrepreneurship effected by the environment and the affected more to individual rather than firm. Another reason may be, this study was limited only to businesses that have survived beyond the initial years.

Due to ethnic background the study concludes that Malay entrepreneurs were more motivated by self-development than Chinese entrepreneurs. Historically, Malays were involved in agriculture, perhaps simply because they possessed agricultural lands, but Chinese, who were emigrants from China, lacked agricultural lands, and became more inclined to entrepreneurship. The government's efforts since the 1970's to motivate Malays to go into business have resulted in Malay entrepreneurs becoming more motivated by self-development. This is in line with McClelland's Theory of Acquired Needs. However, Malay and Chinese entrepreneurs are similar in terms of wealth creation, need for autonomy, push factors and lifestyle change.

Conclusions

This study concludes that successful small business owner managers in the retail sector are motivated by self-development, wealth creation, need for autonomy and push factors. This study has shown that, it is considerable for entrepreneurs to have high motivation achievement in order to succeed in business. However, out of the respondents, 40% say that education only help them to a low extent or does not help them at all. In view of the findings of the study, this indicates that some changes have to be made in secondary and diploma education. Entrepreneur training and activities should be including in course content to expand students' knowledge and experience in entrepreneurship.

Finding from this study conclude that Malays and Chinese are similar in motivation of success (except for some difference in self-development), hence, it can be assumed that Malay entrepreneurs also can be as successful as Chinese entrepreneurs. On the other hand, self –development motivation from government will help increase financial success of Chinese Entrepreneurs. Since “A growing business has a better chance of survival in a competitive marketplace” (Colin Barrow et al, 2005), business growth should be part and parcel of self-development. Small businesses should be

encouraged to grow into medium businesses. Efforts should be made to help entrepreneurs to achieve a balance between business life and family life so that both are sustainable.

Lifestyle change viewed as a motivation however does not lead to financial success of entrepreneurs. Probably entrepreneurs who started business due to push factors gradually become motivated by self-development and wealth creation. Entrepreneurship education should take into consideration that related experience plays an important role in financial success.

Suggestions for Future Research

The study can be conducted on a nation-wide scale, using random sampling to attain better objectivity. More ethnic groups e.g. Indians, can be included in the study. Studies can be made on the manufacturing, services and agricultural sectors, and also on the medium-sized businesses.

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