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The Applicability of Internal Marketing Factors to Boost Internal Service Quality  
Khairul Baharein Mohd Noor, Ismi Rajiani & Nurul Akmal Mohd Sulaiman

Investment In Gold Dinar From Islamic Economic Perspectives  
Siti Zaiton Binti Mohd Dali & Nurshuhaida Binti Abdul Razak

The Non-Significant Contribution Of Network Towards Performance Satisfaction:  
An Exploratory Study  
Dewi Izzwi Abdul Manan & Nawawi Mohd Jan

An Overview Of Corporate Governance In Malaysia Exploratory Study  
Aznizai Mohamad

Reviewing The Literature on Halal Supply Chain Management: Identify Some  
Common Things  
Norreha binti Othman

Foreign Direct Investment And The Malaysian Economy  
Nurshuhaida Binti Abdul Razak

Ergonomic Factors Towards Work Performance At Kolej Poly-Tech MARA Alor Setar  
Muhammad Farid Muhammad Erdris, Nazahiyah Saad & Nurull Azura Arifin

Adopting An Enterprise Resource Planning System In A Privatized Government Unit:  
Challenges, Impact  
Zaini Zainol & Hamdino Hamdan

Personal Characteristics And Strategic Orientation Among Aim Micro-Entrepreneurs  
Wan Sabri Wan Hussin & Hamdino Hamdan

## PERSONAL CHARACTERISTICS AND STRATEGIC ORIENTATION AMONG AIM MICRO- ENTREPRENEURS

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### ABSTRACT

*This is a conceptual paper to discuss some traits of AIM micro-entrepreneurs. The discussion will be pursued to answer the question of how their personal characteristics and their strategic mindset may contribute to their success through the research proposed. The microenterprise is a tool for micro-entrepreneurs to own and run the business to meet the needs of life and the introduction of new products and changes in the industry. Microfinance programs such as Amanah Ikhtiar Malaysia (AIM) is required to complement the relationship of microenterprise and entrepreneurship to enable microenterprise being carried out through the concept of entrepreneurship. Hence this study will attempt to provide a thorough understanding of how micro entrepreneurs among AIM participants make strategic decision-making under the competitive environment. This study will also try to see whether the performance of the business and the creation of business strategy is influenced by the personal characteristics of micro entrepreneurs. This study will also look at whether the personal characteristics of micro entrepreneurs influence their entrepreneurial orientation. In this case micro-entrepreneurs have a unique way to maximize the use of their own capabilities (human capital) to be brought into their business. The paper is proposing the methodology that will be employed for the purpose to achieve objectives mentioned.*

**Keywords:** Strategic orientation, micro entrepreneur, enterprise, and finance

## **Personal Characteristics and Strategic Orientation Among Aim Micro-Entrepreneurs**

### **Introduction**

Good microfinance programs should be able to integrate the concept of entrepreneurship and microenterprise. This is because the concept of entrepreneurship really care about the needs of training, experience, business planning, creativity, competitiveness and willingness to take risks and capital funding (Meccheri & Pelloni, 2006). For Wennekers dan Thurik (1999), the concept of entrepreneurship and microenterprise are interrelated. Even the International Labour Office (ILO) considers entrepreneurship and poverty are closely interrelated with each other and is a very important mechanism in order to reduce poverty around the world through microenterprise business (Vandenberg, 2006).

Entrepreneurship is also seen as a tool for personal development and solutions to social problems such as poverty (Thurik & Wennekers, 2004). Regardless whom, entrepreneurship may playing a role for self satisfaction in life. Such as stated by Reynolds (2010) that it is a common activity among workers in the United States involved in a new business creation over the course of their careers. Prahalad (2004) through his book 'The Fortune at the Bottom of the Pyramid' also give recognition and confidence to the poor with when he state that the poor as a creative entrepreneurs and can flourish. Entrepreneurship is the current and the future vehicles for people to achieve satisfaction in life.

Microenterprise success carried out by micro-entrepreneurs depends on the ability of themselves (human capital) as business owners. This is because when the micro-entrepreneurs want to start a business through microfinance programs, they are not only using capital funding for business but their own capabilities (human capital), covering the skills, experience and their personality. The blending of personality traits and skills may contribute to a strong character and abilities to be a self innovator and generating new ideas for the business processes.

Approach to resource-based view of the firm (RBV) states that every organization has been awarded (endowed) with a certain amount of resources. Part of the award of this natural resource is rare, valuable and difficult to be imitated by competitors which in turn provides an opportunity for businesses to gain sustainable competitive advantages (Hunt & Morgan, 1995). Penrose

(1959) also noted that human capital such as skills, experience and other personal characteristics is the key to natural resources award.

Most past studies indicate that demographic characteristics of business owners, social networks, environment perception and decision-making style have a direct influence on the performance of the business and the strategy selection is made. However, recent research suggests that entrepreneurs personal characteristics have a substantial direct impact on firm performance (Switzer & Huang, 2007) and an indirect impact on performance mediated by decision making speed, decision type and strategy formulation (Karami et al., 2006).

Ketchen et al. (2007) argue that resource endowment alone may not automatically lead to superior firm performance. Instead, they proposed that entrepreneurs and managers must deploy resources wisely to maximize potential benefits. In other words, they indicate that the relationship of resource-performance is mediated by a firm's strategic choices. According to Ketchen et al. (2007) and Macpherson and Holt (2007) propositions, the RBV should be extended to include strategic choices that mediate the relationship between resource endowment and firm performance.

The scope of the study is limited to a small number of variables in each category of constructs. This study will examine samples of personal characteristics such as locus of control, need for cognition and need for achievement, as human capital resource endowment. For the choice of organizational strategy, the assessment will be made whether the business is more market-oriented or entrepreneurial oriented. For microenterprise business performance, the researcher will use indicator such as revenue and ROI.

### **Research questions**

Since awareness campaigns by the authorities to all groups of people, many keep their ambition to be a businessman. The first obstacle perceived among them is the start up capital. Even to start a small business, a big question mark of how? But some with a positive view, despite of having no capital at all, they start-up with a micro business. A micro-business too, needs a micro amount of capital. This is where some elements of creativity is needed of how to obtain such a small amount of money to start running the business. This is where, the questions come and triggered to find out the answer, the relationship between

## **Personal Characteristics and Strategic Orientation Among Aim Micro-Entrepreneurs**

micro-entrepreneur and micro-finance. When the two elements meet, what are some other factors that playing the role for those entrepreneurs moving forward – being successful. Followings are some questions to be answered in the research:

- i. What are the levels of micro-entrepreneur's business achievement involved?
- ii. What are the patterns of relationships between mico-entrepreneurs skills, experience and their microenterprise performance?
- iii. What are the micro-entrepreneur's personal characteristics that influence their strategic choices, which in turn influence the microenterprise's performance.

### **Research objectives**

- i. To investigates how mico-entrepreneurs utilize their skills and experiences to influence their microenterprise's performance.
- ii. To demonstrate that the mico-entrepreneur's personal characteristics influence their strategic choices, which in turn influence the microenterprise's performance.

### **The Significance of the Study:**

- (i). This study is very important in contributing to the enrichment of knowledge through field-theoretical empirical evidence in the context of micro-entrepreneurship, which much less implemented by previous researcher. The findings of this study important to find out to what extent the micro- entrepreneurs have strategic orientation features that can help them expand microenterprise business scale to larger and remain competitive in the business field involved. Furthermore influence the micro- entrepreneur's business performance in the long-term.
- (ii). Providing a database of profiles and characteristics of strategic orientation and performance of micro-entrepreneur to be referred by interested parties especially AIM. Next through this study, the researcher can suggest factors that should be exist or should be modified so that microfinance programs among the poor have been more appropriate to

meet the needs of the poor and microfinance institutions that intend to operate and continue the microfinance program in the future.

- (iii). Furthermore contribute to policy development related to micro-entrepreneurship development in Malaysia.

### **Research Method**

This particular research will focus on observations and semi-structured interviews with AIM officials and AIM entrepreneurs selected based on the list of AIM entrepreneurs given by the AIM. The use of semi-structured interview provides the interviewer the flexibility to focus on what the AIM micro-entrepreneurs perceive and believe is the situation at different stages of the entrepreneurship development process. This is an investigative case study research and by doing this type of study it is expected that a better basis for generalization will be achieved. However, this present research would employ quantitative research method. Since this is a primary data research, the data is obtained through questionnaire surveys.

Respondents are the AIM microfinance participants who have at least 5 years' experience of doing microenterprise business. Moreover, the specification will be followed by a brief discussion of sample size, sampling technique, data collection and analysis procedure.

### **Questionnaire Development**

Socio-demographic status like age, sex, ethnicity, religion, marital status, educational level of sample population; their opinion regarding strategic orientation will be taken and retrieved, as well as the level of uses of strategic orientation and the overall impact of strategic orientation on the enterprise performance, which will be collected via a structured questionnaire that might be piloted beforehand to check compatibility of the questions. The questions will be categorized and structured under the independent variables chosen and discussed in the literate review.

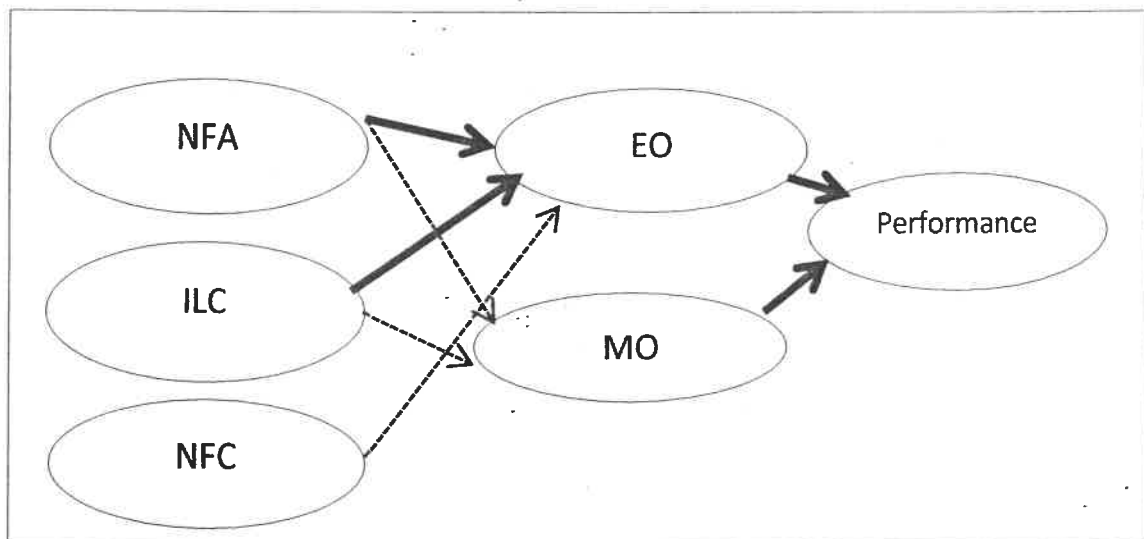
## Personal Characteristics and Strategic Orientation Among Aim Micro-Entrepreneurs

### Sample Size and Sampling Process

The sampling frame for conducting the principal component analysis would comprise 400 AIM participants which would be taken from different places of Selangor state comprising both male and female. A purposive sampling technique would be employed with a few criteria to be set for the selection of these the respondents.

### Survey Instrument and Scale

A survey instrument in the form of a structured questionnaire will be designed using scales established in academic and managerial literature regarding the aspects. The items in the survey questionnaire will be selected from the variables deemed to be pertinent as gleaned from the literature and from interviews of academic professors and other professionals. The questionnaire will consist of a few general questions as regards the competitive business environment, geographical differences and compiling with demographic information. A 5-point Likert scale will be used ranging from 'strongly disagree' to 'strongly agree' will be used.



**Notes:** solid lines signify hypothesized positive relationship. Dashed lines signify relationships that are not hypothesized

For market orientation (MO) we will use 12 items, seven point Likert scale originally developed by Narver and Slater (1990) to capture each respondent's perception of his/her business's customer orientation, competitor orientation and coordination. For entrepreneurial orientation (EO) we will use a nine-item, seven point semantic differential scale based on the work of Naman and Slevin (1993). The items were designed to capture a firm's innovativeness, pro-activeness and risk-taking behaviour.

Need for achievement (NFA) will be measured using five items, seven point Likert scale that were selected from subscale of Needs Assessment Questionnaire (Heckert et al., 1999). Internal locus of control (ILC) will be measured using seven-item, seven point Likert scale based on the work of Levenson (1973). Need for cognition (NFC) we will use a four item measure to capture these aspects of NFC based on study by Lord and Putrevu (2006).

Microenterprise performance (MP) will be measured using three-item, seven point perceptual measure of a firm's performance relative to competition. Respondents were asked to indicate their firm's overall sales revenue, return on investment (ROI) and return on asset (ROA) relative to its major competitors. Such a measure has been used by Jaworski and Kohli (1993).

#### Data Collection and analysis Method:

Survey questionnaires will be selected as the major method for data collection as it appears to be a strong preference to collect data for asnaf entrepreneurs' strategic orientation concerns and issues relate to enterprise performance, critical success factors and appreciation of religion and religious ethics. For collecting the data, a survey paper will be distributed to the selected people with the consent letter with an official letterhead from the Kulliyah of Economics and Management Sciences of International Islamic University Malaysia (IIUM) to explain the purpose of the gathering information. Data analysis will be performed using SPSS 18.0 for Windows for Principal Component Analysis and AMOS 16 for the Structural Equation Modeling (SEM).



## **Personal Characteristics and Strategic Orientation Among Aim Micro-Entrepreneurs**

### **Literature Review**

Various efforts and studies have been done to identify the set of desirable personal characteristics for starting and managing a business. Empirical studies have shown that the achievement motivation has a positive influence on the decision making of entrepreneurs (Kauer et al., 2007), risk-taking behavior also influence entrepreneur strategic decision-making whether or not to collaborate with other businesses or otherwise (Pansiri, 2007), work experience and education levels also affect entrepreneurs in the formation of a formal strategic planning to improve business performance (Karami et al., 2006).

Although numerous studies have identified a number of personal characteristics required and is critical to start and manage a business, but there are no other study that links the relationship between desirable personal characteristics of micro-entrepreneur, their strategic decisions and the performance of microenterprise.

Market-oriented (MO) firms are a firm that has a special collection of behaviour dedicated to the customers. Business's ability to respond to market depending on their level of knowledge on competitors and customers (Narver & Slater, 1990). This means that market-oriented firms need to have an organizational culture that encourage and facilitate all activities related to obtaining information relating to customers and competitors in the target market and deliver that information through business. Empirical studies show that MO has a significant influence on the performance of the business (Kirca et al., 2005).

Entrepreneurial orientation (EO) refers to the processes, practices and decision-making activities that lead to the establishment of new businesses. EO also affects the performance of business. Therefore EO is also important to businesses that have already been carried out. Thus, EO is being conceptualized as the business process which represents the firm's propensity for innovativeness, pro-activeness and openness to risk (Kearney et al., 2007; Covin & Slevin, 1991).

Innovativeness refers to the organizational willingness and tendency to achieve the desired innovation. In can be demonstrated in terms of organization's behaviour, actions and process in the introduction of new products and

services, improvement of existing products or services in innovative ways, promoting R&D activities and process, implementing new methods of production or new systems and new procedures (Kearney et al., 2007). Proactiveness refer to the first mover actions taken by the firm, to grab business opportunities, introduce new products and services in advance, when up against competitors and sensitive to changes in future market demands (Lumpkin & Dess, 2001).

Such behaviour will lead the firm to be the leader, who will explore information, create and launch new products or services to the market, build business network and leverage resources (Morris & Jones, 1999). Openness to risk or risk taking behaviour demonstrates the firm's willingness to take strategic action in venturing into uncertain or risky market, commit substantial amount of resources in projects and willingness to use leverage heavily in their new business activities (Kearney et al., 2007; Lumpkin & Dess, 2001).

Empirical studies in the field of management have identified a range of personal characteristics required for entrepreneurs to start a business. But this study will only use resource-based view and consider the entrepreneur's personal characteristics as human capital resource endowments and examine them in the context of strategy and performance. For variables, the evaluation will be done on three personal characteristics that are often examined in the study of entrepreneurship such as need for achievement, need for cognition and internal locus of control.

Need for achievement (NFA) refers to a stable, learned characteristics in which satisfaction is obtained by striving for and attaining higher levels of excellance (Feldman, 1999). Empirical studies of the past have shown that the NFA has a positive relationship with entrepreneurial and organizational performance (Johnson & Ma, 1995). Previous studies also show that the NFA influence firm strategy where strategy formed is more focused and proactive (Lumpkin & Dess, 1996). Thus researchers think micro-entrepreneur with high levels of NFA are likely to adopt entrepreneurial-oriented strategies. However, researchers found that very few literature that relates NFA with MO. Thus the hypothesis can be made by stating that micro-entrepreneurs who have high levels of NFA has a significant impact on the firm's strategy and an indirect on performance.

## **Personal Characteristics and Strategic Orientation Among Aim Micro-Entrepreneurs**

*H1: Micro-entrepreneur with a higher level of NFA is likely to adopt entrepreneurial orientation to achieve superior firm performance.*

Individuals with internal locus of control (ILC) tends to believe that events are the results of their own actions, while individuals with external locus of control tends to attribute events to external environmental factors, such as powerful others or chance (Levenson, 1973). Based on this approach, the researcher can conclude that the entrepreneurs that have multiple high ILC will consider the success or failure happens to their business is the result of their own actions. While entrepreneurs with external locus of control will consider the success or failure of their business is due to external environmental factors.

Past studies have shown that entrepreneurs with high ILC have a positive impact on their business and is mediated by entrepreneur's risk taking behaviors (Boone et al., 1996). Thus the hypothesis can be made by stating that micro-entrepreneurs who have high levels of ILC has a direct and indirect positive impacts on the firm's performance and is more likely to adopt EO.

*H2: Micro-entrepreneurs with high level of ILC is likely to adopt entrepreneurial orientation to achieve superior firm performance.*

A need for cognition (NFC) is a tendency to engage in and enjoy thinking. The psychology literature suggest that individuals naturally differ in their level of NFC (Cacioppo et al., 1996). Those with high level of NFC possess positive attitude towards complex stimuli that require thinking. Individuals with higher levels of NFC also favor extensive information searches whereas those with lower levels of NFC prefer interpersonal sources of information and more likely to act upon perceptions and gut feelings (Mourali et al., 2005).

This approach has been widely used in the field of marketing particularly in consumer behaviour and advertising research. Thus the researchers concluded that entrepreneurs with level of high NFC would place greater emphasis on logical arguments and make their strategic decisions based on extensive market research rather than intuition. Thus the hypothesis can be made by stating that micro-entrepreneurs who have high levels of NFC have a significant impact on organizational performance, strategy and market-oriented nature.

*H3: Micro-entrepreneurs with high level of NFC is likely to adopt market orientation to achieve superior firm performance.*

In general, the study suggests a contextual model based on the extended resource based view (Ketchen et al., 2007). Researchers believe that micro-entrepreneur's personal characteristics will influence their strategic orientations which ultimately leads to business performance.

### **Conclusion**

It is too early to derive the most significant personal characteristics that contribute to the success of entrepreneurs, especially the micro-entrepreneurs. So regarding the strategic orientation minded, since there is still no tool developed to identify what kind of strategic orientation minded being needed and also how to measure the standard of strategic orientation required for entrepreneurs in order to make them successful. This research is developed as an attempt to recognize such factors.

Anyhow the statement of problems stated and hypothesis developed may give a great help in constructing such cases for research.

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