Business and Entrepreneur Characteristics influence on Business Performance of Professional Small Medium Enterprises

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Abstract: This study aims to examine the determinants of business performance of Small Medium Enterprises (SMEs) professional service businesses based in Malaysia. Specifically, the study analyses the relationships between entrepreneur and business characteristics with business performance. Factors associated with entrepreneur characteristics include gender, age, ethnicity, education, and working experience. While the business characteristics examined were based on years of establishment, start-up capital, number of employees, business’s origin and legal status. The study adopts a quantitative approach whereby a questionnaire survey was used to gather data. The questionnaires were distributed to the owners of SMEs in Malaysia who are involved in providing professional services in the areas of law, architecture, engineering and accounting. A total of 2,376 businesses were identified and questionnaires were distributed via the conventional mail. Despite numerous efforts taken to improve the response rate, only three hundred and fifty three completed questionnaires were returned. It was found that generally the respondents perceived that the business performances of their companies were satisfactory and that they were gaining some form of financial profit. Further analysis on the relationship between the business characteristic and business performance found that the Years of Establishment, Business Set-Up, Number of Employees, Nature of Business, Business Ownership, Start-Up Capital, Business Structure, Source of Capital are significant to business performance. The study also examined the relationship between the entrepreneur characteristic and business performance and found that the gender and age of the entrepreneur significantly affect business performance. Business owners who are male entrepreneurs and are older comparatively perform better than businesses whose owners were females entrepreneurs and younger. It is hoped that the results of this study give insights into the characteristics of successful professional businesses, thus, assisting governments in formulating policies for the development of these SMEs.

Keywords: business performance, professional service businesses, small medium enterprises, entrepreneur and business characteristics

1. Introduction

The small and medium size enterprises (SMEs) play a significant role in economic and business systems and remain the backbone of virtually every economy in both developed and developing nations. They are generally regarded as the engine of economic growth and technological progress (Mulhern 1995). As such many studies (Abdullah 1999; Stuti 2005) have focused on the challenges faced by SMEs in the global business environment. A few scholars (e.g. Lin 1998; Tung and Aycan 2008; Zhang et al. 2008) have investigated key organizational success factors. In addition, research concerning SMEs has concentrated mainly on manufacturing industries (Buzzell and Gale 1987; Bartlett and Ghosai 1989). Enterprises such as professional services business have been neglected and not intensively explored (Nachum 1996, De Brentani and Ragot 1996).

A service is deemed professional by nature if it depends on the expertise of the provider and the complexity and quality of the service cannot be easily evaluated by buyers (Thakor and Kumar 2000). There are several service sectors that fit these characteristics, including accounting, auditing, bookkeeping, engineering and architectural services, data processing and computer programming, advertising and marketing research, business and management consultancy, and legal services (Nachum 1996).

These professional service businesses face a more complex and crowded marketplace than ever before (Ozer et al. 2006; Dawson and Horenkamp 2007). These businesses need to perform in order to continue doing business and their business performance is influenced by several factors, including entrepreneur profile, business profile, financial, technical, and marketing among others (Bryson et al. 1997; Perren 1999).