

# FACTORS INFLUENCING THE FORMATION OF BUSINESS VENTURES

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## ABSTRACT

*The reasons for new firm starts are complex and a combination of factors will often contribute to venture creation. This research explores the prevalence of entrepreneurial activities, which is measured in terms of the involvement in business activities amongst a relatively huge number of respondents. Factors such as feeling contented with the currently acquired income, preferring salaried job rather than doing business, no interest in establishing own business and do not know of how to get access to capital are among the various factors that were identified as common barriers to starting-up own businesses. Some patterns of relationship between the related demographic variables and the propensity to entrepreneurial and business activities were also explored in this research with the intention to uncover some general picture of the Malaysian business context.*

**KEYWORDS:** *Entrepreneurship, Malaysia, Entrepreneurial Activities, Business Venture Formation.*

## INTRODUCTION

Entrepreneurial activities have been recognised by many researchers as a major player and substantial catalyst to the economic growth of a country (Birley 1987). This is based on the fact that it is commonly agreed that new business formation is crucial in generating economic development and creating numerous new jobs (Birley 1987; Kirchoff and Phillips 1987; Reynolds 1987; Chandler and Hanks 1993).

This research intends to explore the prevalence of entrepreneurial activities, which is measured in terms of the involvement in business activities amongst a relatively huge number of respondents. The respondents for this research involved individuals residing in various districts in the capital city, Kuala Lumpur and the state of Selangor, which is considered as representative of the general scenario of the country. This will offer some opportunity for the findings to be generalized to the whole population of Malaysia.

This research also explores various factors that might post as barriers to individuals in attempting to engage in business or entrepreneurial activities. Factors such as feeling contented with the currently acquired income, preferring salaried job rather than doing business, no interest in establishing own business and do not know of how to get access to capital are among the various factors that were identified as common barriers to starting-up own businesses.

Some patterns of relationship between the related demographic variables and the propensity to entrepreneurial and business activities will also be established in this research with the intention to uncover some general picture of the Malaysian business context.

### **Background**

The Malaysian Government has shown continuous support and commitment in the effort to promote entrepreneurship among the population especially the bumiputeras, which is seen as lagging behind the rest of the population. Under the Ninth Malaysia Plan, 80,000 participants will undergo entrepreneurship training and another 102,000 will be given coaching and advice services. Until 30th November 2005, Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) has provides loans to 104,202 small business enterprises which amounted to RM495,165,500. Most recently the government through the Ministry of Entrepreneurship and Development (MECD) had announced plan to establish the Entrepreneur Development Board (Majlis Pembangunan Usahawan – MPU) in all major towns throughout the country. This is mentioned as part of the government's effort in creating more new entrepreneurs in the country. These scenarios provide a strong premise for a vast survey and research to be conducted to investigate what are the main barriers or hurdles that may mitigate or obstruct people from venturing into business enterprises. The identification of barriers of entry is important, together with strategies to minimize their impact.

The related literature has suggested several potential factors that may be perceived as barriers to start-up. This includes feeling of contented with the currently acquired income, preferring salaried job rather than doing business, no interest in establishing own business and do not know of how to get access to capital. Empirical evidence in identifying the main barriers to start-up as proposed in this research will provide valuable input to the respective authority, i.e. the MECD in their future planning in promoting and developing entrepreneurial assistance to potential entrepreneurs.

### **LITERATURE REVIEW**

A lot has been written about the characteristics of entrepreneurs and the reasons that motivate them to set up a business venture. Some of the areas of research that have been examined are marital status, education levels, family size, employment status and experience, age, ethnicity, gender, socio-economic status, religion, personality traits, as well as the importance of various demographic variables such as personality, human capital and ethnic origin too (Mazzarol et al., 1991).

According to Low and Mc Millan (1998, p. 141), entrepreneurship start up has often been referred to the "creation of new enterprise". This reflects a growing conscious that entrepreneurship is a "process of becoming rather than state of being" (Bygrave, 1989, p. 21). This is because, starting a business is not an event, rather a process. Thus, the fruit of labour can only be seen after many years. Research on entrepreneurship has grown along two main aspects:

- the personal traits or characteristics of the entrepreneur; and
- the influence of cultural, political, social and economic contextual factors.

## Major Factors Behind New Firm Formation

The reasons for new firm starts are complex, and a combination of factors will often contribute to venture creation (Birley and Westhead 1994). However, studies have shown unemployment to be a major factor behind new firm formation in the 1970s and 1980s (Storey 1982; Mason 1989; Westhead 1990; Baker 1995), a trigger which stimulates new venture creation. There is a range of motivational factors which contribute to an understanding of the formation of small firms. Mason (1989) identified reasons for establishing new firms, in descending order as; independence, dissatisfaction with previous employment, business opportunity, to make money, unemployment, achievement, to use skills, part-time interest/hobby, tired of making profits for others, insecurity in employment and no wish to relocate. Feldman (2001) following Porter (1990) pointed out that huge market demands, a network of supporting industries and supportive government policy provides a set of factors that increases firms' activities.

Bahrami and Evans (1995) in their observation of the Silicon Valley as an "ecosystem of institutions" attributed the growth and success of Silicon Valley to it being a well-defined geographical business context. This environment provides the necessary facilities and support for firm formation and success such as abundance of venture capitalists, a pool of knowledge professionals and expertise from all over the world, universities and research institutes, a sophisticated service infrastructure, as well as many customers, lead-users and early adopters of new technologies.

Feldman (2001) following Malecki (1997) acknowledges the central role played by venture capital in helping the formation and success of a new venture. Besides providing funding, venture capitalists were also perceived to contribute in providing management expertise and are also considered as an important indicator of the innovative potential of a regional economy (Feldman 2001). Cooper (1973) suggested among other factors that influence the decision to found a new business is 'a complex set of external factors' which include the availability of capital and general societal attitudes towards entrepreneurship.

Economic growth, especially at the regional level and specifically in the formation of regional clusters of industrial innovation, is generally thought to have very close connections with entrepreneurship and new firm formation (Feldman 2001). The role of entrepreneurial expertise or support services is recognised as an important factor that assists and promotes firm formation especially in a designated business or industrial region.

### Psychology of entrepreneurship

In the initial stages of entrepreneurship research, the focus was on the entrepreneur. Entrepreneur personality traits were analyzed to distinguish entrepreneurs from non-entrepreneurs. The traits were also examined to observe the influence of these traits towards the rate of organization formation. For instance, factors such as the need for achievement (McClelland, 1961), risk-taking propensity (Brockhaus, 1980), locus of control (Brockhaus, 1982), tolerance of ambiguity (Scherer, 1982), and desire for personal control (Greenberger and Sexton, 1988) have been identified as possible traits related to entrepreneurial behaviour. To add, other background factors related to individual personality, such as gender (Buttner and Rosen, 1989; Kolvereid et al., 1993), family background (Scott and Twomey, 1988; Matthews and Moser, 1995), previous employment (Storey, 1982; Ronstadt, 1988), , education (Storey, 1982), ethnic membership (Aldrich, 1980), and religion (Weber, 1930) have also been examined and

analyzed. All in all, the combination of psychological traits as well as background factors contributes to the entrepreneurial sense in some individuals more likely than others.

Baudeau (1730-1792; Barry,1998) who initiated the trait school of thought focuses on personality traits such as the need for achievement. He stated that this trait are said to be the main factor in an individual's decision to be an entrepreneur. According to this school of thought, the entrepreneur is born and thus, cannot be made. Other characteristics such as internal locus of control (Rotter, 1966), risk-taking ability (Dyer, 1994) and the need for achievement (McClelland, 1987), are factors common to entrepreneurs.

On the other hand, the social engineering school of thought affirms that individualism is a social phenomenon (Bendix, 1956). It is further claimed that individuals can be understood by studying the situations faced by the individuals as well as the social groups the individual relates (Gibb and Ritchie, 1985) to. This view is parallel to the views of other schools of thought that regard external variables as influences to entrepreneurial intentions. As an example, social learning theory focuses on family influences, culture, role models, work experiences, ethnic experiences, etc. (Bridge et al., 2003; Boyd and Vozikis, 1994; Henderson and Robertson, 1999; Gibb and Ritchie, 1985).

### **Sociology of entrepreneurship**

The primary focus of sociological studies is on variables of personal history such as gender, ethnic origin and education. Furthermore, the extent to which entrepreneurs or person with entrepreneurial intentions share these variables, are also studied. To add, it also include the relative effect these variables have on entrepreneurial intentions and on the success and failure rates of entrepreneur.

Hofstede (2001) defines culture as an interactive aggregate of common characteristics that influence a human group's response to its environment. According to Morrison (2000) and Mason (1989), there is a significant relationship between entrepreneurship and culture at the national and sub-national levels. Furthermore, in a study by the Global Entrepreneurial Monitor (2000-2002), it was found that social and cultural attitudes in the U.K. cause the strongest barrier to the growth of entrepreneurship. This is because of the negative attitudes towards wealth creation, self-employment and business failure at the national levels and international levels.

### **External factors in entrepreneurship**

In the study of entrepreneurship, the environment is equivalent to a pool of resources. The degree of resource abundance is called environmental munificence (Dess and Beard, 1984; Castrogiovanni, 1991). Hence, environment significantly influences start-up process. In addition, the influence of networks (Marett, 1980; Gartner, 1985; Aldrich and Zimmer, 1986; Johannisson, 1988) and the encouragement from sociopolitical influential people along with cultural acceptance (Gartner, 1985; Bull and Winter, 1991) are crucial to a business. The economic environment studies centers on aggregate economic indicators (Walton, 1977), economic recessions (Gould and Keeble, 1984; Shutt and Whittington, 1987) capital availability (Cross, 1981; Storey, 1982; Gartner, 1985) and unemployment (Pennings, 1982; Gould and Keeble, 1984). The support of semi-public agencies also known as the political environment is among important factors determining the success of a business entity (Gartner, 1985; Young and Francis, 1989; Walker and Greenstreet, 1990).

Market emergence theory integrates both concepts of niche emergence (Boeker, 1988; Delacroix and Solt, 1988) and technological innovation (Cross, 1981; Gould and Keeble; 1984; Mason, 1989). In addition, infrastructure development covers numerous variables such as the nature of the local labour market (Pennings, 1982; Gartner, 1985; Mason, 1989), incubator organisations (Gartner, 1985, Young and Francis, 1989) the education system (Gartner, 1985; Romanelli, 1989; Bull and Winter, 1991), information accessibility (Romanelli, 1989) and availability of premises (Cross, 1981; Storey, 1982; Gould and Keeble, Mason, 1989). The process-driven school investigates attitudes and the external environment. This school believes that the external environment influences thoughts, which shape attitudes and form intention. As a result, this will lead one to action (Bird, 2001). The attitudinal approach by Robinson et al.(1991) is a behavioral approach focusing on individuals' attitudes to risk, work, money, etc., which are again influenced by one's social conditioning. Lastly, population ecologists claim that environmental forces, the availability of economic resources and quality of life in terms of economics, education and health issues are important and effects entrepreneurial intentions (Pennings, 1982).

### Definition of small business ventures

Definitions of small firms range from numbers of employees and size of revenue, to type of business and size of premises (Carson and Cromie 1990). The Bolton Report in 1971 (Bridge et al. 2003) developed the understanding of small business in the United Kingdom (UK) and suggested it to be defined based on the following three characteristics.

"First, in economic terms, a small firm is one that has a relatively small share of its market. Secondly, an essential characteristic of a small firm is that it is managed by its owners or part-owners in a personalised way, and not through the medium of a formalised management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions" (Bolton Report 1971).

Bridge et al. (2003) identified a list of characteristics of what being 'small' means which present challenges and opportunities different from those in larger businesses. The characteristics are as follows:

- "the influence of ownership on entrepreneurial behaviour; having greater individual authority;
- managing a total activity and carrying total responsibility; being closer to customers, and being potentially more flexible and adaptable; managing networks of suppliers, customers and financiers;
- paying greater attention to business opportunities;
- taking a strategic approach while also having close and informal control structures and communication channels;
- embracing a 'can-do' culture".

Carson and Cromie (1990) suggested a small business as one which possesses at least two of the following four characteristics:

- "management of the business is independent. Usually the managers are also the owners;
- capital and ownership are provided by an individual or a small group;
- the areas of operation are mainly local, with the workers and owners living in one home community, however, market need not be local;
- the relative size of the business within its industry must be small when

compared with the biggest units in the field. This measure can be in terms of sales volume, number of employees or other significant comparisons" (Carson and Cromie 1990).

Malaysia adopted a common definition of SMEs to facilitate identification of SMEs in the various sectors and subsectors. This has facilitated the Government to formulate effective development policies, support programmes as well as provision of technical and financial assistance. An enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in the Table1.

Table 1: Annual Sales Turnover or Number of Full-Time Employees

Sector	Category	Definition
Manufacturing, manufacturing related services and agri-based industries	1. Micro Enterprises	Sales Turnover less than RM 250,000 OR less than 5 employees
	2. Small Enterprises	Sales Turnover between RM 250,000 to less than RM 10 million OR employees between 5 – 50
	3. Medium Enterprises	Sales Turnover between RM 10 million to RM 25 million OR employees between 51 – 150
Services (including Information and Communication Technology - ICT) and primary agriculture	1. Micro Enterprises	Sales Turnover less than RM 200,000 OR less than 5 employees
	2. Small Enterprises	Sales Turnover between RM 200,000 to less than RM 1 million OR employees between 5 - 19
	3. Medium Enterprises	Sales Turnover between RM 1 million to RM 5 million OR employees between 20 - 50

### 3 METHODOLOGY

In order to examine the factors likely to hinder an individual to establish a small business, a study was undertaken with individuals in the city of Kuala Lumpur and selected districts in Selangor, Malaysia. The purpose of this study is to identify the factors important in serving barriers small business start-up. The study drew a sample of 1800 respondents.

#### Population and sample

The population of the study consists of those settling in the Federal Territory of Kuala Lumpur and the state of Selangor. These areas were chosen due to several factors. Firstly, these areas comprise people from diverse ethnicity background with a variety of settlement patterns as well as society groups. Hence, the people come from diverse socioeconomic background. In addition, these areas are selected for aspects of racial integration and unity, and population density. The residential areas from Kuala Lumpur that are involved in this study are Setapak, Campbell, Brickfields, Sentul and Cheras. In addition, areas in Selangor comprise districts such as Petaling jaya, Kelang, Shah Alam and Gombak. A total of 1800 samples were selected from these areas through simple random sampling method. According to Krejcie and Morgan (1970), a sample of above 1000 is sufficient for a total population of 20 million.

#### Data collection

Primary data was collected through self-administered questionnaire, which were distributed to the respondents by Jabatan Perpaduan Negara dan Intergrasi Nasional (JPNIN's) senior officials. This method is perceived as most appropriate as it allows for

a large sample spread over a wide area to be surveyed and enables quick response. It also avoids personal bias. The data collection started with a meeting of the researches and the leaders of the areas involved in this study. 29 leaders attended this session. A briefing was carried out by the researches to guide the leaders on the manner of answering the questionnaire. Subsequently, the leaders were given questionnaires to be distributed to their areas. All in all, a total of 842 questionnaires were completed by the respondents. This number represents 80% of the sample of study.

## RESULTS

### Profile of the Research Sample

In this section a brief description of the various characteristics of the sample is provided. The descriptive analysis of the sample firms presented in this section begins with exploring the various demographic variables of the samples. The characteristics of the sample displayed include age, gender, ethnicity, current job, religion, and residential region (Table 2).

As shown in Table 2, a big majority, 83.8 %, of the respondents were within the working age group of between 21 to 55 years. The breakdown of respondents in terms of gender was quite even with 55 % males and 45 % females. In terms of ethnicity distribution out of a total of 791 respondents, 76.2 % are Malays, followed by Indians (13.1 %), Chinese (9.9 %) and other races 0.8 %. Substantial majority of the respondents (58.6 %) are salaried worker with 28.2 % working in the government sector and 30.4 percent in the private sector. Only a total of 139 respondents or 17.9 % were involved in business or being self-employed. Respondents' distribution in terms of their residential region was considered as fairly proportionate with regard to the size of the regions as 60.6 % stayed in the state of Selangor and the remaining 39.4 % resides in Kuala Lumpur.

Table 2: Descriptive statistics of the characteristics of the respondents

Variable	Variable value	No. of cases	% of cases
Age of respondents (n=703)	<20 years	55	7.8
	21-35 years	230	32.7
	36-45 years	192	27.3
	46-55 years	167	23.8
	56 years and above	59	8.4
Gender (n=791)	Male	435	55.0
	Female	356	45.0
Ethnicity (n=791)	Malay	603	76.2
	Chinese	78	9.9
	Indian	104	13.1
	Others	6	0.80
Current job (n=777)	Government sector	219	28.2
	Private sector	236	30.4
	Self-employed/Business	139	17.9
	Retiree	53	6.8
	Not working/student/unemployed	130	16.7
Religion (n=784)	Islam	607	77.4
	Buddha	57	7.3
	Hindu	89	11.4
	Christian	29	3.7
	Others	2	0.3
Residential region (n 791)	Kuala Lumpur	312	39.4
	Selangor	479	60.6

### **Barriers to start-up/ venture formation as perceived by individuals in Kuala Lumpur and Selangor**

The results of table 3 below indicated the respondents' feedback on various items regarding as barriers to venture formation. The barriers can be divided into two main categories; factors that relate to individuals feeling contented with present status-quo and factors that relate to difficulty in venturing into business as perceived by the respondents.

#### **Factors that relate to individuals' feeling contented with present status-quo**

The result from table 2 showed that 60 % of the respondents agreed that having a permanent salary-based job contribute to their decision for not venturing into business. A total of 76.7 % of the respondent further stated that they are satisfied with the salary received from the permanent job. Lastly, 68.4 % of the respondents stated preference towards a salary-based job compared to business.

#### **Factors that relate to difficulty in venturing into business as perceived by the respondents**

As can be seen from Table 3, over half of the respondents (54.7 %) indicated that they are not interested in doing business while 45.2 % stated vice versa. When asked on knowledge and experience in doing a business, 45.9 % indicated that they do not have the knowledge and experience. A majority of the respondents (77 %) stated that they do not have the capital to set up a business. In addition, a total of 197 respondents (66 %) pointed out that they do not know how to search for a capital to set up a business. In the same issue, a total of 206 respondents (84.6 %) stated that they do not have any idea on how to start a business whereas 230 respondents (73.9 %) claimed that they do not have the knowledge in marketing. Finally, 204 respondents (59.5 %) indicated fear of failure. Thus, they decided not to venture into the business world.



**Table 3 : Descriptive statistics of the respondents based on their response to the various items regarding barriers to venture formation**

Variable	Variable value	No. of cases	% of cases	Mean	Standard Deviation
<b>I do not have any capital</b>	Strongly disagree	15	4.9	2.88	0.73
	Disagree	56	18.1		
	Agree	188	60.8		
	Strongly agree	50	16.2		
<b>I am satisfied with the salary I receive from my present job</b>	Strongly disagree	10	3.2	2.93	0.66
	Disagree	49	15.5		
	Agree	210	66.2		
	Strongly agree	48	10.5		
<b>I do not have any knowledge in marketing</b>	Strongly disagree	18	5.8	2.80	0.72
	Disagree	63	20.3		
	Agree	192	61.7		
	Strongly agree	38	12.2		
<b>I prefer a salary-based job</b>	Strongly disagree	22	7.1	2.72	0.73
	Disagree	73	23.5		
	Agree	186	59.8		
	Strongly agree	30	9.6		
<b>I do not have any idea to start a business</b>	Strongly disagree	24	7.7	2.66	0.73
	Disagree	82	26.3		
	Agree	182	58.3		
	Strongly agree	24	7.7		
<b>I already have a permanent job</b>	Strongly disagree	20	6.2	3.07	0.80
	Disagree	30	9.3		
	Agree	182	40.0		
	Strongly agree	91	20.0		
<b>I am afraid of failure</b>	Strongly disagree	37	11.7	2.70	0.89
	Disagree	74	23.5		
	Agree	150	47.6		
	Strongly agree	54	11.9		
<b>I am not interested in doing business</b>	Strongly disagree	29	9.5	2.58	0.84
	Disagree	109	35.7		
	Agree	127	41.6		
	Strongly agree	40	13.1		
<b>I do not know how to search for a capital to set up a business</b>	Strongly disagree	28	9.1	2.65	0.78
	Disagree	83	26.9		

## DISCUSSION AND CONCLUSION

This study was designed and conducted to understand the barriers of business formation based on various variables. The findings were based on the analysis of data collected from respondents residing in selected areas of Kuala Lumpur and the state of Selangor. It is found that entrepreneurial activity is quite insignificant amongst the respondents. The majority of the respondents do not have the motivation to venture in entrepreneurial activities because they are satisfied with their present job and reluctant to embark in any business ventures. However, due to the sample selection, generalization of these findings is inconclusive. Perhaps a different sampling would provide different findings.

As can be seen from the result, more than half of the respondents showed contention with their present status quo with reference to their present job and salary. Their satisfaction with their present job and salary results in their reluctance to venture into entrepreneurial undertakings. This finding also implies that they lack entrepreneur personality traits as identified by Brockhaus (1980, 1982) on risk-taking propensity and locus of control, Greenberger and Sexton (1982) on the desire for personal control, McClelland (1961) on the need for achievement and Schere (1982) on the tolerance of ambiguity. It can be inferred that most of the push factors (Watson et al., 1994; Davies and Gibb, 1991; Brockhaus and Horwitz, 1986) on the need to earn a reasonable living and the pull factors identified as the urge to being independence, being one's own boss, creative expression, doing enjoyable work and profit motives (Watson et al., 1994) to establish new businesses are lacking among the respondents. Therefore, taking into account that individualism is a social phenomenon (Bendis, 1956), these barriers can be minimized by instilling interest and motivation towards entrepreneurship. It is, thus, crucial to develop self-efficacy towards entrepreneurship which is a key variable to establish both the strength of the entrepreneurial intention and the chances that these intentions will be converted into action ((Boyd and Vozikis, 1994; Krueger, 1993).

In addition, difficulties in starting business venture are another crucial barrier to get involved in entrepreneurship. Over half of the respondents stated difficulties in starting business ventures such as no interest in establishing own business and do not know of how to get access to capital. These factors can be categorized as environmental factors that hinder entrepreneurship. Lack of societal acceptance and encouragement on entrepreneurship might be the possible reasons for the respondents not having interest in establishing own business. In addition, information inaccessibility may lead to lack of knowledge on how to get access to capital.

Finally, the result of the t-test conducted on various categorical variables such as age groups (between 21 to 35 years and above 35 age groups), gender (between male and female), ethnicity (between male and female) and occupational sector of the respondents (between government sector and private sector) did not revealed significant differences. This is perhaps appealing to the parties involved in instilling awareness of entrepreneurship among the people such as the government agencies and higher institutions because despite of all these variables, when it comes to feelings towards business venture, the general sentiment is generally similar.

In a developing nation such as Malaysia, the awareness among the people of the need for entrepreneurship knowledge and the desire to venture in the business world are important. This is because the people of a nation are its greatest asset. Hence, efforts by the government and universities to instill such awareness through the integration of entrepreneurship skills in the new soft skills module should be applauded. The

government should further support the universities by promoting an enterprise culture so that parents understand the importance of entrepreneurship to the economy and to open up opportunities for the students' development. Further funds and development to provide finance for young people leaving university with substantial debt should also be on the government's agenda.

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