Determining the Effectual Thinking, Entrepreneurial Talent and Venture Performance: an Exploratory Study in Malaysian Small Medium Enterprise (Sme)

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ABSTRACT

The small and medium-sized enterprises (SMEs) accounted for more than 95% of businesses and contributed to 60-70% of new jobs created in OECD member countries. In Malaysia, the SMEs sector is expected to help propel the country towards achieving the status of a high-income nation by the year 2020. The Malaysian government is putting up support, including human capital development programs to develop talents in order to ensure successful performance of the SMEs. However, the linkage between entrepreneurial talent and the various dimensions of venture performance have not been established. Thus, the paper seeks to explore the relationship between the elements of entrepreneurial talent on venture performance in the context of Malaysian SMEs. The paper also aims to explore the effect of non-predictive decision making strategy, or effectual thinking, on entrepreneurial talent and venture performance.

INTRODUCTION

Entrepreneurship is essential to the vitality of an economy, and its contributions to an economy have been extensively debated (Acs, 2006, Shane, 2003, Sin, 2010, van Stel, Carree, & Thurik, 2005, Xavier, Kelley, Kew, Herrington, & Vorderwülbecke, 2013), through job creation for the entrepreneurs themselves and those they employ (van Stel et al., 2005, Xavier et al., 2013), offering products and services in variety and making it affordable via innovations (Rosenbusch, Brinckmann, & Bausch, 2011), to name a few. For example, the Organisation for Economic Co-operation and Development (OECD) reported in 2006, that small and medium-sized enterprises (SMEs) represent over 95% of all businesses, and contribute to 60-70% of new job creation in OECD member (Mayer-Haug et al., 2013). While GEM 2013 reported that small businesses account for approximately 75% of new jobs each year and represent over 99% of employers who are mostly self-employed entrepreneurs (Xavier, Kelley, Kew, Herrington, & Vorderwülbecke, 2013).

The significance of the economic contribution of entrepreneurship won the conviction of governments all over the world to invest money and resources as initiatives to develop entrepreneurship and ensure successful venture among their citizens (Amorós, Felzensztain, & Gimmon, 2011, Mohamed, Rezai, Shamsudin, & Mahmud, 2012, Sin, 2010, Xavier et al., 2013). Nature of initiatives include establishment of government agencies (Othman, Hashim, & Wahid, 2012, Sin, 2010) and facilities such as business incubators, specifically to promote entrepreneurship by way of allocating financial and non-financial resources to assist entrepreneurs, educational and training programs to equip entrepreneurs with the technical, business and other skills deemed necessary, putting in place policies which are favourable to nascent entrepreneurs as well as new businesses, and inculcate entrepreneurial culture through education (Sin, 2010).

At the same time, quite a high proportion of people in the society seem to be interested in entrepreneurship. In the Global Entrepreneurship Monitor 2012 (GEM 2012), Xavier et al. (2013) reported that although a good measure of respondents in a global survey considered entrepreneurship to be a good career choice and accorded a high status to successful entrepreneurs, a much lower percentage of respondents actually take initiatives to embark on careers as entrepreneurs. For instance in a different study, Kelley, Singer, & Herrington (2012) reported that 59% to 76% of respondents perceived that entrepreneurship as a good career choice, and even higher percentages of 65% to 81% of respondents accorded a high status to entrepreneurs. However, a very much lower percentage of actual entrepreneurial activities have taken place among the same communities.

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Traditionally, many people begin their careers working for a firm, gaining both knowledge and contacts. While many choose to continue their careers working within organizations, quite a significant percentage choose to take their knowledge and contacts and to build a firm of their own. GEM 2012 reported that the highest occurrence (about 50%) of the early-stage entrepreneurial activity took place in the age groups of 25–44 years of age, while a different study reported that 41% of entrepreneurs were between 30 to 49 years old, of which 5% had less than five years of experience in owning or managing a business (Djukic, 2011). Individuals in the two age groups are characterized by their well-developed managerial and technical (Bauck & Human, 1994) skills and knowledge obtained through higher education and years of work experience and track record (Singh & DeNoble, 2003; D’Arcy et al., 2012); have access to business networking and financial resources. However for the same group of people deployment for entrepreneurship will also mean foregoing career advancement, and the associated more lucrative salaries and perquisites, as well as the protection of personal assets and stability of provision for families (Xavier et al., 2013).

The situations whereby experienced corporate employees resigned from their jobs to become entrepreneurs may actually pose a threat to their former employer organizations as well as the economy as a whole. This is because they bring with them years of expertise in their own area of working. Scholars and practitioners have debated over the costs involved when high performance and experienced employees quit which include the costs of recruitment and retraining of replacement employees (Jacobs, 2012, Wallace & Gaylor, 2012), costs due to reduced morale among remaining employees, costs of declining customer services, as well as costs of non-productivity of the employee(D’Arcy et al., 2012).

However, the case of experienced employees who turnover to become entrepreneurs should be viewed with an added concern. The costs of brain drain experienced by their former employers may be added to with the loss to the economy when these experienced employees turn entrepreneurs failed in their pursuit of business ventures as start-ups are full of uncertainties and has low success rates (Campbell, Ganco & Franco, 2012). Based on the data from The Census Bureau and the Bureau of Labor Statistics (BLS) from the period of 1994 to 2005, the survival rate for start-ups during the first five years of its establishment is 45% to 50% (Shane, 2012). Thus, it is of importance that a study be conducted to examine the factors that lead to successful performance of the business ventures of the former corporate employees.

To the best of our knowledge, no study has been conducted to specifically examine the phenomenon of experiences employees turn entrepreneurs, although the loss from the failure of the group of potential entrepreneurs is higher and is further amplified with the loss of expertise. Thus, a study to specifically examine and identify the lessons and principles underlying the successful performance of this particular group of entrepreneurs is deemed crucial and timely.

Likewise, the importance of entrepreneurship has also garnered the attention of the academics (Shane, 2003). A multitude of studies has been conducted arguing various aspects of the field, from definitions of the word entrepreneurship, looking at it from various perspectives such as economics, strategic management, psychology and sociology. Throughout tenure of over 80 years, a number of concepts and theories have been proposed by authors to explain the phenomenon and come up with frameworks for successful development of entrepreneurship (Harms & Schiele, 2012; Perry et al., 2012, Steyaert, 2007).

Attempts to define entrepreneurship dated back to as early 1725 by an economist named Richard Cantillon in his Essay on the Nature of Trade in General and described entrepreneurs as self-employed who undertake risks for personal well-being (Agbenyegah, 2013). However, a more recent definition of the entrepreneurship process is given by Shane (2003) that is, the interactions between the entrepreneurs and environment to exploit opportunities. Kirzner (1973) on the other hand, describes entrepreneurs as individuals being able to assess and seize opportunity. Following the stream of that discussion, we can then conclude that entrepreneurship is about the entrepreneurs, the environment in which they operate, and opportunity that they discovered or created and exploited (Carland et al., 2004; Edelman & Yli-Renko, 2010).

**Problem statement:**

**Theoretical Gap:**

The paper aims to contribute to the literature surrounding the role of education and experience in shaping entrepreneurial talent. Governments all over the world invested funds in training and development programs to promote entrepreneurship under the premise of knowledge and education are among the factors associated with higher venture success rates (Shane, 2003; Ferrante, 2007). However, a meta-analytic review of 183 studies to examine the relationship between various constructs of entrepreneurial talent and measures of venture performance revealed that the constructs of experience and skills, and education are not significantly associated with the all measures of performance except for qualitative performance (Mayer-Haug et al., 2013), which contradicts the findings of other studies which argue that education and experience play an essential role in shaping entrepreneurial required skills and abilities, i.e. entrepreneurial talent (Djukic 2011; Ferrante, 2007; Shane, 2003).
The paper also aims to fill the gap of limited research conducted addressing the relationship of effectuation on entrepreneurial talent and performance as suggested by Perry et al. (2011) that further research to be conducted to explore the relationship between effectuation and established entrepreneurship and management theories such as entrepreneurial talent and venture performance.

In addition, the paper also aims to contribute to the literature on the performance of entrepreneurs from among experienced as the majority of the existing research on entrepreneurship were conducted among university students to represent future potential entrepreneurs. However, entrepreneurial intention does not always lead to actual entrepreneurial behaviour (Carsrud & Brännback, 2011), i.e. wanting to become an entrepreneur does not guarantee that the student will take the necessary action to set up a firm. The responses received are also based on the students’ perception, and does not allow for observations relating to actual experience. Hence, a research that is conducted among practicing business owners should be able to give more valuable insights on the situation.

**Empirical Gap:**

The majority of studies conducted in the area of entrepreneurial talent and effectuation were conceptual and qualitative in nature. The sample used is small, thus the findings cannot be generalised to the whole population. This is because the area of entrepreneurial talent and effectuation is considered as new and therefore the nature of studies conducted was of qualitative nature. For instance, in a small survey conducted among 14 mid-career entrepreneurs in Canada, 86% of the respondents indicated that their former corporate experience was the most significant factor contributing to their success as entrepreneurs (Djukic, 2011). The study, even though validated the hypothesis that prior experience contributes to entrepreneurial performance (Shane, 2003), cannot be generalized to the whole population due the small sample of respondents. The author of the said study calls for further research into the mid-career entrepreneurs and more in-depth research involving a larger number of participants examining the motivations, and performance of firms started-up by former corporate employees (Djukic).

**Applied Gap:**

According to the Department of Statistics Malaysia, as of 2013, individuals within the ages of 30 to 49 years represent 26.77% of the whole population of Malaysia. This age segment represents the age group whereby the highest entrepreneurial activities have been recorded to take place (Xavier et al., 2013). The age bracket of 30 to 49 years old has been referred to as the midpoint of careers, during which individuals possess increased social and economic significance (Djukic, 2011). It would be of interest to various parties such as would be entrepreneurs, government agencies tasked to promote entrepreneurship, financial providers, as well as academics to understand factors that are associated with the performance of this group of entrepreneurs.

Hence, the research also will attempt to provide deeper insight of the specific elements of entrepreneurial talent which is most significantly associated with the different aspects of a firm’s performance measure as a better understanding of the association between specific elements of entrepreneurial talent and the dimensions of venture performance allows for better resource allocation (Mayer-Haug et al., 2013). From a policy perspective, understanding of the association between constructs of entrepreneurial talent and performance will enable more efficient and effective deployment of scarce resources, and funds could be targeted to foster entrepreneurial talent with the highest impact on the desired performance outcome. The outcome of the proposed research also seeks to contribute to attempts in identifying elements of entrepreneurial talent that can be influenced by economic policy in promoting entrepreneurship (van Praag & Versloot, 2008) among the particular group of entrepreneurs.

**Literature review:**

**Venture Performance:**

A number of measures have been adopted by earlier studies when discussing about entrepreneurial performance. Examples of the various performance measures include the financial performance of the firm, such as sales and revenues, profitability, size of assets, and also their rates of growth. Non-financial approaches include productivity growth (Francis, Saliola, & Seker, 2013), company growth measured in terms of

Equally important are the non-financial performance measure of firms which include number of employees, number of products, number of years in operation since inception, and number of branches, to name a few.

Some other researchers have used non-tangible or qualitative measures such as life and job satisfaction of the entrepreneur and other perceptual variables as one of the measures of entrepreneurial performance. In a study examining the relationship between entrepreneurial motivation and business performance, the performance construct was measured by the level of satisfaction of the entrepreneur on the success of the firm (Cachon et al., 2013). Other qualitative measures of performance include the innovativeness of a firm’s investment, propensity to use of market analysis, the quality-segment of the market, and the competitive advantages of the firm (Ferrante, 2005).
Entrepreneurial Talent:
The term entrepreneurial talent has been used to describe the qualities, ability, and values of the entrepreneur (Ferrante, 2005). Entrepreneurial talent has also been used to refer to individual characteristics of creativity and innovativeness, and the willingness and ability to carry out innovative projects, and in the process ability to deal with the uncertainty of starting a venture or in other words, attitude towards risks (Ferrante, 2005). From the resource-based view (RBV) perspective, prior studies looking at the antecedents of entrepreneurial performance have found that entrepreneurial talent variables are able to provide a significant explanation for variations in venture performance (Ferrante, 2005; Mayer-Haug et al., 2013). The effective reallocation of entrepreneurial talent from the government/state and agricultural sectors to business sectors has also been found to contribute to the phenomenal economic growth of China (Zhang et al., 2010).

Mayer-Haug et al. (2013), in a meta-analytic study on entrepreneurial talent and venture performance, propose that entrepreneurial talent is composed of the constructs of experience and skills, education, planning, team size, and network. In the same meta-analytic study, the authors discovered that education, knowledge and skills are not significantly related to performance. This contradicts the findings of other studies which posit that education and experience are significant influence of entrepreneurial performance (Weber & Schaper, 2004; Djukic, 2011).

Authors have measured entrepreneurial talent using both the qualitative and quantitative approaches such as financial and non-financial measures, as well as tangible and intangible measures. The concept of entrepreneurial talents has also been measured by the productivity of individuals employed within a firm, or in terms of risk aversion among self-employed people, time allocation between entrepreneurial and managerial activities (Ferrante, 2005). While Nelson & Phelps (1966) and Otani (1996) developed a model in which entrepreneurial talent is treated as a specific form of human capital which is acquired through experience (Ferrante, 2005). Other authors provide the distinction between two types of entrepreneurial talent, namely ‘business talent’ and ‘creative talent’; and using the talent allocation model, is measured the willingness to undertake risky activities for private payoffs (Weitzel et al., 2010).

Other authors have used the Jack-of-All-Trades (JAT) to describe the human capital investment strategies which consist of a balance of multiple competencies and skill-mix (Silva, 2007). Silva uses the entrepreneurs’ breadth of experience as skill-mix proxy, and is measured total number of roles covered during an entrepreneur’s job careers.

Effectual Thinking:
Effectuation is a form of expertise under uncertainty and is described as a set of heuristics for decision making in uncertain environments (Read & Sarasvathy, 2005). Effectual thinking consists of strategies that combine available means with unanticipated contingencies to construct a series of stakeholder commitment (Read et al., 2009).

The effectuation principle of thoughts is along the stream of arguments that opportunities can be created by people instead of being discovered by entrepreneurs (Read & Sarasvathy, 2005).

There are five principles underlying the concept of effectuative thought as proposed by Sarasvathy and Dew, 2005. For examples: design, means, partnership, affordable loss, and leverage contingency. According to Sarasvathy and Dew, 2005, they conducted a meta-analytic reviewed in examining the relationship between effectuation and venture performance, each of the underlying principles of effectuation and the respective aspects are analysed on the relationship with venture performance.

The fluid and responsive concept of effectual thinking in entrepreneurial opportunity exploitation is in tandem with the Timmons model of entrepreneurial process whereby the components of the entrepreneurial process are argued to be in constant motion, expanding and contracting in response to the dynamics of the environment and opportunity. In the Timmons model, the role of the entrepreneur involves balancing the components very much like the balancing act performed by a juggler (Spinelli Jr. et al., 2007).

The effectuation principle of leverage contingency suggests that opportunity is created and exploited through innovative application of contingent alternatives and not through pursuing a specific goal at the beginning, which is customary with formal planning (Read et al., 2009). It implies the willingness and ability to modify strategies to suit situation. In a meta-analysis study conducted by Read et al., 2009; the authors’ construct the leverage contingency and found to be significantly and positively associated with venture performance.

Research framework:
The contributions of entrepreneurship to the Malaysian economy is equally significant as it is seen as among the strategic initiatives of the government’s drive in transforming Malaysia into a developed country to tackle the perennial problems of unemployment, high rate of taxes, low purchasing power, insufficient income or security concerns (MOF, 2013). As of 2000, the Malaysian small and medium enterprises (SMEs) made up a significant portion of various sectors in the Malaysian economy the highest being approximately 89.3% of
manufacturing sector and followed by 17% of the textiles and apparel sector, more than 14 of food and beverages, 14.3 and 13.6 for both the wood and wood products, and metals and metals products, respectively (Sin, 2010). As of 2005, SMEs represent 99.2% of the business establishment, providing jobs for over 56% of total employment (Sin, 2010).

The SMEs sector in Malaysia is also expected to play an increasingly significant role throughout the economy in Malaysia in propelling the country towards its journey in achieving the status of a high-income nation by the year 2020. Via the Economic Transformation Programme (ETP) of the government, a more active role of the SMEs is encouraged through financial support, better access to research and technology and enhanced infrastructure (PEMANDU, 2010, Sin, 2010). By the year 2020, Malaysia’s gross national income is targeted to reach over RM1.7 trillion or RM48,000 per capita with a rate of growth of 6% per annum. Aside from the quantitative target, Malaysia also aspires to have the economic status with the characteristics of the thriving services sector, a balance between private consumption and investment, and high productivity levels. Among the strategies formulated include focusing on the service sector, which is expected to contribute to 65% of the gross domestic product (GDP) and 3.3 million of new job creation throughout the country. The economic transformation is to be led by the private sector with the government acting as the facilitator.

However, after three years of the ETP launch, despite the high representation in the economic, the productivity levels of SMEs in Malaysia have been found to be much lower than expected i.e. SMEs contributed to 32% of the Malaysian Gross Domestic Product (GDP), 19% of the country's total exports, and generated an average value added per employee only 30.8% of that of a larger enterprise (Sin, 2010). Hence, in order to ensure that the SMEs are able to play an effective role, we need to look for more ways to improve the performance of SMEs in order to enable them to help the country boost its economy to achieve the aspirations of becoming a high-income economy nation.

Based on the review of literature on venture performance, entrepreneurial talent, and effectuation, we propose that the conceptual framework for the exploratory study to be as per Figure 1 below.

Fig. 1: Conceptual framework of exploratory study.

**Conclusion and recommendations:**

In summarizing this conceptual paper, this research will explore the aspects of venture performance, entrepreneurial talent and effectual thinking. Prior research has established the effect of entrepreneurial talent on venture performance. However, the effect of the specific dimension of the entrepreneurial talent i.e. education, skills and knowledge, on venture performance has been inconclusive and therefore further research into the subject is deemed timely. A further empirical study on the role of effectual thinking or entrepreneurial expertise and its relationship to the concepts of entrepreneurial talent and venture performance is also proposed to be conducted among experience employees who become entrepreneurs as this group of entrepreneurs bring with them years of experience and other financial and non-financial resources. We believe that a deeper understanding of the dimensions of entrepreneurial talent and its relationship with the specific dimension of venture performance will be a useful insight as to the types of development program which will be suitable to encourage the type of performance that is needed.

**REFERENCES**


