

UNIVERSITI PUTRA MALAYSIA

EFFECTS OF FAMILY BUSINESS GOALS AND ENTREPRENEURIAL BEHAVIOUR ON BUSINESS PERFORMANCE AMONG MALAY SMALL FAMILY FOOD PROCESSING BUSINESSES IN PENINSULAR MALAYSIA

ASKIAH BINTI JAMALUDDIN

FEM 2017 2



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By

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Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfillment of the Requirements for the Degree of Doctor of Philosophy

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the Degree of Doctor of Philosophy

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February 2017

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Malay small family businesses (MSFB) in the food processing industry are important for economic and social development. It has been proved that small family businesses are increasing the family income as well as promoting income generation for the community. Even though the business is small in size, the involvement of family members in the food processing industry has improved their families' quality of life. The food processing industry has encouraged Malays to grasp the opportunity to be self-employed. Therefore, MSFB in the food processing industry is an important topic to study in the field of the family economy and management.

There are five specific objectives of this study to explain the effects of family-business goals and entrepreneurial behaviour on business performance among MSFB in Peninsular Malaysia. The first objective is to identify the profile of MSFB in food processing industry. The second objective is to determine the business performance indicators of MSFB in food processing industry. The third objective is to identify the business performance level of MSFB in food processing industry. Fourth objective is to determine the influence of family business goals and entrepreneurial behaviour on business performance. Finally, the study is to determine the role of family-business goals in moderating the influence of entrepreneurial behaviour on business performance.

The quantitative approaches using deductive strategy allows the researcher to answer the research objectives. There are 284 respondents from Perak, Selangor, Johor and Terengganu involved in this study. The list of small family business names was collected from the respective Department of Agriculture (DOA) in these states. Then,

the researcher developed a sampling frame and used simple random sampling technique to select the sample.

The Confirmatory Factor Analysis (CFA) Amos confirmed that sixteen business performance indicators with four domains. The domains are Demand, Agency Support, People and Finance. Then, the descriptive analysis found that business performance level based on respondent's profile shows that the young business owner has formal education, and no family involvement in family business explains that they have a high level of business performance. In addition, their monthly income is more than RM3000. While, low level of business performance describes that the respondent at the middle age, no formal education and family involvement in the family business. Then, the high level of business performance registration type is a partnership. They use others name as registration for their company name, business age is more than ten years, annual gross income is more than RM300,000 and the number of worker is less than five. Next, multiple regression analysis using the hierarchical method was undertaken. The result shows that family-business goals and entrepreneurial behaviour affected business performance ($R^2 = 0.37$). Finally, the result shows that family goals moderate the influence of entrepreneurial behaviour on business performance, while, the business goals do not moderate the influence of entrepreneurial behaviour on business performance.

The findings extend the existing knowledge by explaining subjective business performance indicators. In addition, family-business goals are a new element tested in MSFB studies. This has extended the body of knowledge in research related to entrepreneurial behaviour and business performance. This study has provided benefits for small family business researchers, small business advisors, policymakers, small business owners and family members.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

PENGARUH MATLAMAT KELUARGA-PERNIAGAAN DAN TINGKAHLAKU KEUSAHAWANAN KE ATAS PRESTASI PERNIAGAAN DALAM KALANGAN PERNIAGAAN KECIL KELUARGA MELAYU DALAM INDUSTRI PEMPROSESAN MAKANAN DI SEMENANJUNG MALAYSIA

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Perniagaan kecil keluarga Melayu (MSFB) dalam industri pemprosesan makanan adalah penting untuk pembangunan ekonomi dan sosial. Ia telah terbukti bahawa perniagaan kecil keluarga telah meningkatkan pendapatan keluarga dan juga penjanaan pendapatan untuk komuniti. Walaupun perniagaan ini bersaiz kecil tetapi penglibatan ahli keluarga dalam industri pemprosesan makanan telah meningkatkan kualiti hidup keluarga. Industri pemprosesan makanan telah menggalakkan orang Melayu mengambil peluang untuk bekerja sendiri. Oleh itu, MSFB dalam industri pemprosesan makanan adalah topik penting untuk dikaji oleh bidang ekonomi keluarga dan pengurusan.

Terdapat lima objektif spesifik dalam kajian ini yang menerangkan pengaruh matlamat perniagaan keluarga dan tingkahlaku keusahawanan ke atas prestasi perniagaan dalam kalangan MSFB di Semenanjung Malaysia. Pertama, megenalpasti profil MSFB dalam industri pemprosesan makanan. Kedua, menentukan indikator prestasi perniagaan dalam kalangan MSFB. Ketiga, mengenalpasti tahap prestasi perniagaan dalam kalangan MSFB. Keempat, menentukan pengaruh matlamat perniagaan keluarga dan tingkahlaku keusahawanan ke atas prestasi perniagaan. Akhirnya, menentukan peranan matlamat perniagaan keluarga dalam memoderasikan pengaruh tingkahlaku keusahawanan ke atas prestasi perniagaan.

Pendekatan kuantitatif menggunakan strategi deduktif membolehkan pengkaji menjawab objektif kajian. Sebanyak 284 responden dari Perak, Selangor, Johor and Terengganu telah terlibat dalam kajian ini. Senarai nama perniagaan keluarga kecil

diperolehi dari Jabatan Pertanian dari setiap negeri tersebut. Pengkaji membina rangka persampelan dan menggunakan persampelan rawak mudah untuk memilih sampel.

Analisis CFA-Amos menunjukkan terdapat enam belas indikator prestasi perniagaan dengan empat domain. Domain tersebut ialah Permintaan, Sokongan Agensi, Orang dan Kewangan. Kemudian, analisis deskriptif untuk mengenalpasti tahap prestasi perniagaan dan perbincangan mendalam berkaitan profail diterangkan. Tahap prestasi perniagaan berdasarkan profil responden menunjukkan kategori umur muda, dan mempunyai pendidikan formal, dan tiada penglibatan keluarga dalam perniagaan mempunyai tahap prestasi perniagaan yang tinggi. Tambahan pula pendapatan sebulan adalah RM3000 dan ke atas. Sementara, prestasi perniagaan tahap rendah adalah responden berumur pertengahan, tiada pendidikan formal dan ahli keluarga terlibat dalam perniagaan keluarga. Tahap prestasi perniagaan berdasarkan profil perniagaan menunjukkan prestasi tinggi bagi jenis perniagaan bersama, menggunakan nama pendaftaran lain untuk nama syarikat, umur perniagaan adalah lebih dari sepuluh tahun, pendapatan kasar tahunan adalah lebih dari RM300,000 dan bilangan pekerja adalah kurang dari lima orang. Kajian ini menerangkan perniagaan mempunyai prestasi tinggi bagi responden yang mempunyai bilangan pekerja kurang dari lima. Seterusnya, proses analisis Regresi Pelbagai dengan kaedah hierarkikal telah digunakan. Keputusan menunjukkan matlamat perniagaan keluarga dan tingkahlaku keusahawanan memberi kesan ke atas prestasi perniagaan ($R^2 = 0.37$). Akhirnya, keputusan menunjukkan matlamat keluarga memoderasikan pengaruh tingkahlaku keusahawanan ke atas prestasi perniagaan, sementara itu, matlamat perniagaan tidak memoderasikan pengaruh tingkahlaku keusahawanan ke atas prestasi perniagaan.

Hasil kajian menambahkan ilmu dengan menerangkan indikator prestasi perniagaan dalam pengukuran subjektif. Tambahan pula, matlamat perniagaan keluarga adalah elemen baharu yang diuji dalam kajian MSFB. Ia telah mengembangkan ilmu kajian yang berkaitan tingkahlaku keusahawanan dan prestasi perniagaan. Kajian ini memberi sumbangan kepada pengkaji perniagaan kecil keluarga, penasihat perniagaan kecil, pembuat polisi, pemilik perniagaan kecil dan ahli keluarganya.

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I certify that a Thesis Examination Committee has met on 27 February 2017 to conduct the final examination of Askiah binti Jamaluddin on her thesis entitled "Effects of Family Business Goals and Entrepreneurial Behaviour on Business Performance among Malay Small Family Food Processing Businesses in Peninsular Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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TABLE OF CONTENTS

			Page
ABST	ΓRACT ΓRAK NOWLI	EDGEMENTS	i iii V
	ROVAL		vi
	LARAT		viii
	OF TA		xiii
	OF FIG		xvi
СНА	PTER		
1	INT	RODUCTION	1
_		Background of the Study	1
		Problem Statement	
		Research Questions	3 5
		Research Objectives	5
		Significance of Study	5
		Scope of The Study	6
	1.7	-	7
		1.7.1 Business Performance	7
		1.7.2 Family-Business Goals	7
		1.7.3 Entrepreneurial Behaviour	8
		1.7.4 Small Family Business	8
	1.8	Thesis Organization	8
	1.9	Conclusion	9
2	LIT	ERATURE REVIEW	10
	2.1	Introduction	10
	2.2	Small Family Business in Malaysia	10
	2.3	Small Family Business	12
		2.3.1 Small Family Business Definitions	13
		2.3.2 Small Family Business Characteristics	14
	2.4	Small Family Business Performance	16
		2.4.1 Business Performance Definitions	17
		2.4.2 Business Performance Measurement	19
		2.4.3 Business Performance Indicators	21
	2.5	2	22
		2.5.1 Family-Business Goals	23
		2.5.2 Entrepreneurial Behaviour	24
		2.5.3 Age of Business Owner	26
		2.5.4 Formal Education Level	27
		2.5.5 Financial Capital	27
	2.6	2.5.6 Number of Full-time Worker	28 28
	/ n	CONCUESTAN	/ X

3	THE	EORETICAL FRAMEWORK	30
	3.1	Introduction	30
	3.2	Family Economic Related Theory	30
		3.2.1 Family Economic Functions	32
		3.2.2 Household Production Theory	34
		3.2.3 Human Capital Theory	35
		3.2.4 Goal Setting Theory	37
		3.2.5 The Sustainable Family Business Theory (SFBT)	38
	3.3	Conceptual Framework	40
	3.4	Conclusion	42
4	RES	SEARCH METHODOLOGY	44
-		Introduction	44
		Research Design	44
		Population, Sample and Research Location	45
	4.4		47
		4.4.1 Respondent and Family Background	48
		4.4.2 Business Background	48
		4.4.3 Entrepreneurial Behaviour	49
		4.4.4 Family-Business Goals	50
		4.4.5 Business Performance	51
	4.5	Pilot Test	53
		Exploratory Factor Analysis and Reliability	54
		4.6.1 Entrepreneurial Behaviour	54
		4.6.2 Family-Business Goals	57
		4.6.2.1 Business Goals	57
		4.6.2.2 Family Goals	60
		4.6.3 Business Performance	61
	4.7	Data Collection Process	64
		Data Analysis	65
		Conclusion	68
5		DINGS AND DISCUSSION	69
	5.1		69
	5.2	1 2	69
		5.2.1 The Profile of Respondent and Spouse	69
		5.2.2 The Children's Profile	72
		5.2.3 Children's Profile Aged 18 and Above, and Involved	75
		Full-time in Family Business	70
		5.2.4 Respondent's Profile with Children Aged 18 and	78
		Above, and Involved Full-time	02
		5.2.5 Sources of Income and Respondent's Profile	83
	<i>5</i> 2	5.2.6 Family Member Involvement	88
	5.3	C	88
		5.3.1 Business Profile	88
		5.3.2 Source of Capital	91
		5.3.3 Business Operation Location	94
		5.3.4 Business Status	95
		Determined Business Performance Indicators for MSFB	97
	5.5	Business Performance Level of MSFB	104

		5.5.1 Indicators and Business Performance Level	104
		5.5.2 Business Performance Level Based on Respondent's Profile	107
		5.5.3 Business Performance Level Based on Spouse's Profile	110
		5.5.4 Business Performance Level Based on Business Profile	113
		5.5.5 Business Performance Level Based on Business	116
	5.6	Profile of Co-entrepreneur Effects of Family-Business Goals and Entrepreneurial	118
	5.0	Behaviour on Business Performance	110
		5.6.1 Entrepreneurial Behaviour	119
		5.6.2 Family Goals	125
		5.6.3 Business Goals	132
		5.6.4 Multiple Regression Analysis (MRA)	139
	5.7		145
	3.7	5.7.1 Family Goals as Moderator	146
		5.7.2 Business Goals as Moderator	149
	5.8	Conclusion Conclusion	153
	2.0	Constantion	100
6	CO	NCLUSION AND RECOMMENDATIONS	155
	6.1	Introduction	155
	6.2	Summary	155
		6.2.1 The Profile of MSFB in Food Processing Industry	155
		6.2.2 Determine The Business Performance Indicators for MSFB	155
		6.2.3 The Business Performance Level of MSFB	157
		6.2.4 Determine The Influence of Family-Business Goals and Entrepreneurial Behaviour on Business	157
		Performance among MSFB	4 = 0
		6.2.5 Determine The Role of Family-Business Goals in	158
		Moderating The Influence of Entrepreneurial	
	(2	Behaviour on Business Performance	150
		Conclusion	159
	6.4	Implications	160
		6.4.1 Theoretical Implications	160
	6.5	6.4.2 Practical Implications	161
	6.5	Recommendations for Future Research	162
		6.5.1 Policies recommendation	162
		6.5.2 Future research recommendation	164
REFE	RENC	ES	165
APPE	NDICE	ES	178
BIOD	ATA O	F STUDENT	198
LIST	OF PU	BLICATIONS	200

LIST OF TABLES

Table		Page
2.1	Number of Employees by Industry, 2009 to 2015	11
4.1	Number of MSFB in Category 2 and 3 Registered with DOA in 2010	46
4.2	Number of Respondents	47
4.3	Entrepreneurial Behaviour Definitions and Domain	50
4.4	Small Family Business Performance in Subjective Measurement	52
4.5	Guidelines for Identifying Significant Factor Loadings Based on Sample Size	53
4.6	Principal Component Analysis of Entrepreneurial Behaviour and Total Variance Explained (Eigenvalues >1)	55
4.7	Reliability for Entrepreneurial Behaviour Domain	55
4.8	EFA Reduction of Entrepreneurial Behaviour Items	56
4.9	Principal Component Analysis of Business Goal and Total Variance Explained (Eigenvalues >1)	58
4.10	Reliability for Business Goals Domain	58
4.11	EFA Reduction of Business Goal Items	59
4.12	Principal Component Analysis of Family Goals and Total Variance Explained (Eigenvalues >1)	60
4.13	Reliability for Family Goals Domain	61
4.14	EFA Reduction of Family Goal Items	61
4.15	Principal Component Analysis of Business Performance and Total Variance Explained (Eigenvalues >1)	62
4.16	Reliability for Business Performance Domain	62
4.17	EFA Reduction of Business Performance Items	63
5.1	The Profile of Respondent and Spouse (N=284)	71
5.2	The Tabulation of Children's Profile	74

5.3	Children's Profile Aged 18 and Above, and Involved Full-Time in Family Business	77
5.4	Respondent's Profile with Children Aged 18 and Above, and Involved Full Time in Family Business	81
5.5	Other Sources of Income	83
5.6	Respondent's Profile and Other Sources of Income	86
5.7	Business Profile	90
5.8	Sources of Capital at the Start-up, Expansion and Maturity Stages	94
5.9	Location of The Business Operations	95
5.10	Business Status from the Start-up, Expansion and Maturity Stages	96
5.11	Descriptive Result for Business Performance Items	98
5.12	Internal Reliability Results for Business Performance	99
5.13	Average Variance Extracted and Construct Reliability of Business Performance Indicators	103
5.14	Descriptive Results for Business Performance	107
5.15	The Tabulation of Business Performance Level	107
5.16	Business Performance Level Based on Respondent's Profile	109
5.17	Business Performance Level for Respondent	110
5.18	Business Performance Level Based on Spouse's Profile (n=137)	112
5.19	Business Performance Level for Spouse, n 137	113
5.20	Business Performance Level Based on Business Profile	115
5.21	Business Performance Level Based on Business Profile of Coentrepreneurs (n=137)	117
5.22	Business Performance Level for Business	118
5.23	Descriptive Results for Entrepreneurial Behaviour Items	120
5.24	Internal Reliability Result for Entrepreneurial Behaviour	121
5.25	Average Variance Extracted and Construct Reliability of Entrepreneurial Behaviour	125

5.26	Descriptive Result for Family Goals Items	127
5.27	Internal Reliability Result for Family Goals	127
5.28	Average Variance Extracted and Construct Reliability of Family Goals	131
5.29	Descriptive Result for Business Goals Items	133
5.30	Internal Reliability Result for Business Goals	134
5.31	Average Variance Extracted and Construct Reliability of Business Goals	138
5.32	Descriptive Result of Main Variables	140
5.33	Correlation Matrix Between Dependent Variable and Independent Variables	141
5.34	ANOVA Result for Multiple Regression	142
5.35	Model Summary for Multiple Regression	143
5.36	Coefficients for Multiple Regression	144
5.37	ANOVA Result for Family Goals as Moderator	147
5.38	Model Summary for Family Goals as Moderator	148
5.39	Coefficient for Family Goals as Moderator	149
5.40	ANOVA Result for Business Goals as Moderator	151
5.41	Model Summary for Business Goals as Moderator	152
5.42	Coefficient for Business Goals as Moderator	153

LIST OF FIGURES

Figure		Page
2.1	The Delmar Model is showing how Entrepreneurial Behaviour Affect Business Performance	25
3.1	Conceptual Framework	42
5.1	The Measurement Model for Business Performance	100
5.2	The Measurement of Second Order Model for Business Performance	101
5.3	Indicators and Items of Business Performance	106
5.4	The Measurement Model for Entrepreneurial Behaviour	122
5.5	The Measurement of Second Order Model for Entrepreneurial Behaviour	123
5.6	The Measurement Model for Family Goals	128
5.7	The Measurement of Second Order Model for Family Goals	129
5.8	The Measurement Model for Business Goals	135
5.9	The Measurement of Second Order Model for Business Goals	136
5.10	Family Goals as Moderator	146
5.11	Business Goals as Moderator	150

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Economic growth fluctuates based on global economic circumstances. The Small and Medium Enterprise (SME) Annual Report 2013/2014 (2014) shows that the Malaysian economic growth in 2012 was 5.6% and decreased to 4.7% in 2013. During that time, the Malaysian economic growth decreased due to a weak external environment in the first half of the year. However, in 2014, the Gross Domestic Product (GDP) expanded. This was mainly because of small and medium enterprises (SMEs), which were supported by domestic demand and contributed to the growth of the Malaysian economy.

The growth in the Malaysian economy is significantly attributed to small business activities. A huge number of small-scale businesses provide financial security for Malaysian families who then pay taxes that contribute towards the country's economic growth. The main industries in small businesses are construction, services and manufacturing. The construction industry remains the vital economic activity contributing to GDP, followed by services and manufacturing. The construction industry is a robust activity that involves residential development, infrastructure, and oil and gas activity.

The second economic industry sector is services, which has been supported by strong domestic demand in telecommunications, professional businesses (lawyer firms, private clinics and tax firms), and tourism and hospitality. Finally, the number of businesses in the manufacturing industry, such as food processing, is increasing and continues to strengthen the domestic-oriented industries, and has significantly contributed to economic recovery, especially during a global economy crisis. Generally, the food processing business in Malaysia is small-scale in size and is family-operated.

The Malaysian government emphasizes SME and entrepreneurship development programs to encourage the Malays to be involved and sustain in business. The manufacturing industry is the most popular economic activity explored by the Malays. However, based on the SME Annual Report 2013/14 (2014), the GDP for the manufacturing industry in Malaysia is still lower than other sectors. For that reason, there is an opportunity for the Malays to be involved in this industry and focus on the domestic-oriented industries. In addition, there is a vast opportunity for the Malays to market their food products because of the halal trademark.

There are government programmes, such as entrepreneur development, rural entrepreneur and development, and women extension group, that focus on giving the Malay entrepreneurs an opportunity to improve and expand their business. Morrisson, Breen and Ali (2003) stated that business performance is unlikely to be realized if there is no government support. Therefore, in the Ninth Malaysia Plan (10thMP, 2010), the Malaysian government focused on developing and enhancing small and medium enterprises (SMEs) by providing intensive programmes to encourage the Malays to take part.

The motivation and entrepreneurship programmes have created a large number of SMEs in Malaysia. In addition, more than 90% of the businesses in SMEs are small (SME Annual Report 2013/2014, 2014). Generally, these small businesses are family businesses that are owned and operated by the family members. The number of established small businesses has increased with the encouragement from the Malaysian government.

In 2014, the SME policies focused on enhancing productivity, encouraging business formation, promoting innovation and targeting high growth in business. The SME Annual Report 2013/14 (2014) shows that the policy operated with total funds amounting to RM1.2 billion to accelerate the growth of small business channelled through micro-credit institutions. The SME policies are important as a reference for the business owner in operating their business. Micro-credit is one of the methods to encourage small business owners to perform in the business.

The purpose of this study is to explain the effects of family-business goals and entrepreneurial behaviour on business performance among Malay small family businesses (MSFB) in Peninsular Malaysia. A very limited research was conducted concerning family-business goals (Getz & Carlsen, 2000). This is due to the fact that family business goals can be analysed by their movement or achievement in business (Getz & Carlsen, 2000; Wheelock & Oughton, 1996). Although several studies have been conducted in the past that analysed the relationship between entrepreneurial behaviour and business performance, there is limited explanation about family business goals. This study is important for small family business owners, business advisors and government policy.

There are many family businesses that started for growth, profit maximization, or even for permanence (Getz, Carlsen & Morrison, 2004). Family business decisions relate to the goals and preferences of the owners. For instance, some small family businesses are operated to increase the family's income or to obtain sufficient income simply for survival. On the other hand, some small family businesses have goals to increase the number of full-time employees and increase annual sales turnover. However, business performance greatly depends on the small family business owner's motivation (Getz, Carlsen & Morrison, 2004; Anderson & Lee, 2008). They not only aim for financial purposes but also for family harmony, social status and family identity of certain businesses (Astranchan & Jaskiewicz, 2008), networking and trust from family members and business friends (Anderson & Lee, 2008).

In conclusion, small family businesses play an important role in family economics and a country's economic growth, as evidenced by past literature that highlighted that family businesses are the backbone of enterprise (Zachary, 2011; Getz et al., 2004) and economic growth (Singh, Reynolds, Muhammad, 2001). Hence, the Malaysian government has progressively encouraged Malay small family businesses to grow and expand, not only for domestic demand but also for international demand.

1.2 Problem Statement

In Malaysia, the food processing industry is dominated by small and medium-sized enterprises (SMEs). Rahman, Kamarulzaman and Sambasivan (2013) found that there are more than 9000 food processing factories are operating in Malaysia and 95% are classified as a small family business. There is an enormous number of small family business in Malaysia. However, the failure business rate in Malaysia is about 31.5%, and 23.2% of the amount are small family business (SSM Annual Report, 2015). The failure rate for small family business is higher that non-family business. This is related to the issues of small family businesses have a unique characteristic and management, goals, and business performance measurement compare to non-family businesses.

An accurate business performance measurement is essential in the study of MFSB due to the fact that their success or failure is determined by factors pertaining to performance. Business performance can be measured objectively or subjectively. Traditionally, business performance has been measured objectively by financial indicators (Danes, Stafford & Loy, 2007). Financial is an objective or standard measurement for business performance; however, Birds and Brush (2002) argued that financial or objective measurement fails to explain the complexity of family business performance. This is because the family business situation is different from non-family business.

Financial matters in small family business such as gross income and sales, are not the only aims to be achieved, and they do not explain how the business is performed (Olsen, Zuiker, Danes, Stafford, Heck & Duncan, 2003). Moreover, the comparison of business performance between the family business and non-family business in terms of gross income and number of workers is not appropriate (Kaikonen, 2006; Danes et al., 2007). Therefore, subjective measurements such as the small family business owner's self-assessment about business growth, family harmony and sustainability of the business, are still the hidden indicators for business performance (Astrachan, 2010), and need to explore.

Besides financial indicators, there are several other indicators that could enhance the explanation of family business performance. Researchers in family business have studied several indicators that explain family business performance, such as family members' involvement in family business management (Gersick, Davis, Hampton, & Lansberg, 1997), family harmony (Astrachan, 2010), balancing work and family, and business sustainability (Danes, Stafford & Loy, 2007). In a qualitative research on building trust between the business owner, and the customer and supplier, trust is

identified as an indicator of business performance in small family business (Carrigan & Buckley, 2008). This explains that family business performance can be measured by financial indicators as well as non-financial indicators. However, there have been limited studies focusing on non-financial indicators, thus further research is needed. Even though the business owner's self-assessment of family harmony, business sustainability and the extension of the business is subjective in nature and depends solely on the business owner's perception, it provides true evidence from the business owner's perspective (Deshpande, Farley & Webster, 1993; Kaikkonen, 2006; Kellermanns & Eddleston, 2006).

Moreover, small family businesses have different characteristics and managerial strategies from those of a non-family business. As Astrachan (2010) mentioned that the family business is more complex than non-family business research. It is assumed that all small business owners aims to enhance their business (Walker & Brown, 2004). However, not all small family business goals are to have a huge profit in their business. Some family businesses were started for growth and profit maximization, while others may have just been for permanence (Getz, Carlsen & Morrison, 2004). Some small family businesses have no interest in growth, implying that financial gain is not their primary aim (Walker & Brown, 2004). This may relate to the entrepreneurship behaviour of the business owner.

Sharma (2004) identified that entrepreneurship behaviour is related to business performance. The owner of the family business may or may not have an appropriate level of entrepreneurship behaviour. Besides focusing on business performance indicators, this research explains the effects of family-business goals and entrepreneurial behaviour on business performance among Malay small family businesses. There may be an interrelationship between the variables in terms of family-business goals and entrepreneurial behaviour. Research on the interactions of family-business goals and the effect of that interaction on family business performance is scant (Danes et al., 2007). A critical research on entrepreneurial behaviour in family business performance is needed for further explanation (Olson et al., 2003).

Past research in small family business focused on business goals and entrepreneurial behaviour, and its relations to business performance. Very limited research focused on family goals and its effects on business performance. Smith (2006), and Getz and Carlsen (2004) explained that family-business goals have an effect on business performance. Therefore, the current study aims for further analysis by operating the moderating analysis. Family goals and business goals as a moderator for this study. Moreover, there are limited studies about subjective measurement of the business performance indicators for small family businesses. Most of the research about business performance was carried out on non-family businesses. In light of this, the current study investigates the effects of family-business goals and entrepreneurial behaviour on business performance among Malay small family businesses in food processing industry in Peninsular Malaysia.

1.3 Research Questions

Based on the problem statement, the main question the research attempts to answer is "How do family-business goals and entrepreneurial behaviour affect business performance among Malay small family businesses (MSFB) in food processing industry in Peninsular Malaysia?"

The main question is explained by answering the following five specific questions:

- 1. What is the profile of MSFB in food processing industry?
- 2. What are the business performance indicators of MSFB in food processing industry?
- 3. What is the business performance level of MSFB in food processing industry?
- 4. Do family-business goals and entrepreneurial behaviour influence business performance among MSFB in food processing industry?
- 5. Do family-business goals moderate the influence of entrepreneurial behaviour on business performance among MSFB in food processing industry?

1.4 Research Objectives

General Objective:

The general objective of the research is to study the effects of family-business goals and entrepreneurial behaviour on business performance among Malay small family businesses (MSFB) in food processing industry in Peninsular Malaysia.

Specific Objectives:

- 1. To identify the profile of MSFB in food processing industry.
- 2. To determine the business performance indicators of MSFB in food processing industry.
- 3. To identify the business performance level of MSFB in food processing industry.
- 4. To determine the influence of family-business goals and entrepreneurial behaviour on the business performance among MSFB in food processing industry.
- 5. To determine the role of family-business goals in moderating the influence of entrepreneurial behaviour on business performance among MSFB in food processing industry.

1.5 Significance of Study

The current understanding of the effects of family-business goals and entrepreneurial behaviour on business performance in Malay small family businesses is significant to academicians in the family economics and management discipline. It is also of benefit and provides information to business owners and business advisors who specialize in family business as well as policymakers.

First of all, the study is of significance to academicians in family economic and management. Mostly, small family businesses have been explained from a macro perspective pertaining more to business management. However, this study focuses on the micro-perspective and explains the effect of business owner behaviour on how they perform in small family business. The study also assists academicians in exploring and studying about small family business.

In addition, this study is of significance to business owners and family members. The basic and crucial information related to the owner, family, and business provides input, such as when is the right time to register the business as a company entity, and when should the family member or investor begin to invest in their company. The data collected about family-business goals provide new input for MSFB studies in the food processing industry, which could encourage business owners and family members to enhance business performance while maintaining harmony in the family.

Finally, by using the research results to clarify the understanding of small family business management, government officers and senior executives may improve the policies and procedures for small family business management. The identification of what impacts business performance in MSFB is available in this data, which will assist small family business owners to be more aware of the appropriate techniques that can be used for measuring business performance. In addition, family-business goals research is directly or indirectly reflected in the family business management strategy. It is a subjective emotion and motivation that is in tune with the family business strategy plan (Jarzabkowski & Spee, 2009). Therefore, family-business goals are an important variable in this study. This element is important in terms of the practices of MSFB.

It can be concluded that this study adds new knowledge about the family perspective in the small family business context. It could be used to benefit Malay family business management in business as well as the family. It is also significant for the Ministry of Agriculture and SME Corp., Malaysia, in terms of the development policy for small family business.

1.6 Scope of The Study

The scope of the study includes several elements that make the thesis unique and different to other research. This study focuses on three main variables – family-business goals, entrepreneurial behaviour and business performance – for which the characteristics of the business are small size, family business-operated and food processing. Finally, the statistics used are CFA-AMOS, Multiple Regression and Moderation Analysis.

First of all, the dependent variable for this study is business performance. Most of the past literature focused on economic business performance measurements, such as profit and number of workers. However, the current study focuses on the measurement of non-economic business performance. This is a self-assessment of business performance, in terms of technology, customers and networking with supporting agency. In addition, there are two independent variables – family-business goals and entrepreneurial behaviour. Several past studies explored the relationship between entrepreneurial behaviour and business performance; however, there are limited studies concerning family-business goals in small family business. Hence, this study includes family-business goals as an independent variable as well as a moderator variable to explore their role in moderating the influence of entrepreneurial behaviour on business performance.

Then, this study focuses on small sized family businesses. The sample chosen is based on categories two and three, which the DOA has classified as a small family business. Generally, one or more family members are involved in the business management. The scope of business for this study is food processing, which is based on agricultural raw components, such as tapioca and banana, which were value added to produce high quality food products.

In summary, the scope of study for this thesis includes the variables, characteristics and analysis of small family business. The thesis has a unique scope of study upon which the findings are based.

1.7 Definition

1.7.1 Business Performance

Conceptual definition:

Business performance can be conceptualized as expansion (Cliff, 1998), and as the business owner's view of growth satisfaction (Astranchan, 2010; Alasadi & Abdelrahim, 2007; Delmar & Wiklund, 2008).

Operational definition:

This study focuses on the MSFB owner's satisfaction with business expansion. The respondents were asked to rate the statement on a seven-point Likert type scale, based on how much emphasis they placed on each measure such as finance, employment, marketing, family, customer services and product (Askiah, 2011).

1.7.2 Family-Business Goals

Conceptual definition:

Basco and Perez Rodriquez (2009) defined goal as a sense of direction. Family business goals constitute a motive to perform in business (Taiguri & Davis, 1992; Getz & Carlsen, 2000; Smith, 2006).

Operational definition:

Family-business goals are the sense of motivation of the business owner to achieve in their business. The instrument for family-business goals is adapted and adopted from Smith (2006) whose research concerned the goals of small family business owners in the United States. In this study, the respondents were asked to rate family goals on a seven-point Likert type scale as a motive for family in business, while business goals are used as a business motive for business.

1.7.3 Entrepreneurial Behaviour

Conceptual definition:

Walker and Brown (2004) defined entrepreneurial behaviour as small family business strategic behaviour that captures specific entrepreneurial aspects. Entrepreneurial behaviour means the actions taken by the small business owner to achieve business performance (Delmar, 1996).

Operational definition:

This is the strategic behaviour among business owners in the food processing industry. The instruments are adopted and adapted from Delmar (1996). This current study uses an index comprising a seven-point Likert scale, which reflects how business owner's act as an entrepreneur in operating their small family business.

1.7.4 Small family business

Conceptual definition:

Small family business is an enterprise that is controlled by members of a nuclear family (Sharma & Manikutty, 2005; Astrachan, 2010).

Operational definition:

Small family business is an enterprise managed by one or more family members in the food processing industry with a monthly income in category two (RM3,000 to RM5,000) or category three (RM5,000 to RM10,000), as defined by the DOA.

1.8 Thesis Organization

In this thesis, there are six chapters explaining the effects of family-business goal and entrepreneurial behaviour on business performance among MSFB in Peninsular Malaysia. Chapter 1 is an introduction to the research. An overview of MSFB is provided and the concept of business performance in small family businesses is defined. In Chapter 2, the past literature relating to business performance, family-business goals, entrepreneurial behaviour, small family business characteristics and definition is discussed. Chapter 3 discusses the theories pertaining to family economic – human capital theory, resource management model, and goal setting theory. The current research used the family economic and management approach to explain how important it is for the small family business to increase the family income for survival

and growing the business. Chapter 4 presents the research methodology. This chapter contains the research design, research location, sampling, data collection and analysis of data. Then, Chapter 5 presents and discusses the findings, which answer the four research objectives. Finally, Chapter 6 concludes the research objectives, stating the implications and recommendations.

1.9 Conclusion

Food processing, as a manufacturing industry, has a potential to be explored by MSFB. The Malay, especially in rural areas which generally work as a farmer could be innovative to add value the agricultural resources. This productive activities have increased the family income and improve quality of life. Based on the MSFB in the food processing industry scenario, this study is dedicated to examine four research objectives. The next chapter provides a review of the earlier literature and research pertaining to small family businesses.

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