



Influencing factors in doing business: The case of oil palm smallholders



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ABSTRACT

Agricultural industry such as oil palm is facing the market volatility and economic oppression. This resulted in volatility of oil palm planter's revenue. One way to make up the shortfall in revenue is to get them involved in business. However, the involvement of oil palm smallholders is not only influenced by economic factors alone, but also influenced by the push and pull factors. Therefore, the study included 178 smallholders who were currently doing business in Johor, Selangor, Perak and Sarawak. Analysis was done by Structural Equation Model (SEM) using SmartPLS software. The study found that the respondents engaged in business with the push and pull factors. Overall, the respondents expressed that "risk / challenges management" is the most important push factor followed by "leadership skill", "business opportunity", "family encouragement" and "income level". Meanwhile, "attend training" is the most important pull factor followed by factors of "infrastructure facilities" and "finance".

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1. Introduction

Business is one way to earn supplementary income. Smallholders' participation in business is a proactive step towards improving their revenues and cost of living. Business activities are important elements to develop the economy of local communities to support the growing cost of living.

Agricultural industry such as oil palm is facing the volatility of market and economic oppression. In 2012, demand for palm oil has fallen causing crude oil prices (CPO) at RM2764 per ton. Prices continued to fall in 2013 and 2014 at RM2383.50 and RM2119.50 respectively. Farmers also face pressure in their plantations because the majority of small farmers occupy only 3.9 hectares of land per family (MPOB, 2014). This resulted in income from oil palm industry in Malaysia to decrease. In fact, this directly hit the revenue of oil palm smallholders. These factors encouraged farmers to engage in other business. However, studies on the involvement of individuals in business are not only driven by economic factor, but they are also influenced by

other factors such as business opportunities, knowledge, risks, facilities and finance. Therefore, this study was conducted to identify the push and pull factors encouraging farmers to get involved in business. The study will present the entrepreneurship factors for people who want to engage in business.

2. Literature review

Generally, motivation is an important factor in generating and linking reaction, response or action to the activities of a particular stimulus. Motivation is the psychological needs and desires of human beings in every way. People get involved in the business is due to several reasons, causes and environmental influences. Theory of reasoned action (TRA) states that motivation is influenced by some reasons or causes (Fishbein and Ajzen, 1977). This means the process of formation of motivation involves interaction between individual's belief systems with consideration or evaluation related matter, where the reaction will establish the reasons that drive a behavior. Motivation of individuals involved in the business is divided into two main components, namely pull motivation and push motivation. Pull motivation emphasis on the needs and emotions of individuals. This motivation is to answer the question of why people want to get

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involved in the business. According to a study conducted by Kuzilwa (2005), individuals engaged in business because they want to add to their family income. This factor is the main pushing factor because business is considered a contributor to revenue for survival (Salleh et al., 2016).

Motivational push is also driven by the business opportunities that are available in an area (Alvarez and Busenitz, 2001). For individuals who wish to engage in business, they will look at economic conditions and the demand of goods by consumers. After few observations and identification, then individuals will try to set up the demand for goods among the users (Rose et al., 2006). Therefore, individuals will take the opportunity to go into business (Indarti and Langenberg, 2004). Studies conducted by Rose et al. (2006) showed that economic environment and the understanding of the market needs and consumer goods became the deciding factor of the individual involved in business. Individuals should also identify areas or business site which is suitable for business premises due to the selection of the appropriate spaces will encourage business activities (Page et al., 1999). Therefore, the understanding and the facility provided is important to strategies the complex market.

Encouragement from family is one of motivational pushes for individuals to engage in business (Rose et al., 2006). Studies showed that individuals that involved in business were due to business inheritance from parents and they see that business can be developed and expanded. In addition, the availability of family-business site for operation during transaction also affects individual's involvement in business. Factors such as knowledge and skills are also important in support for business development (Yew and Aspinwall, 2004). Individuals need to know the management techniques in the business such as the financial position and capital management (Vinten, 2000).

According to Emin (2000), knowledge is an important asset to influence innovation and competitiveness in business. Personal characteristics also contributed to the push motivation of the individual engagement in business. This element refers to the action of individuals and a strong contributor for individuals to get involved in business (Gadar and Yunus, 2009; Smit and Watkins, 2012) and this factor refers to the ability of a person to operate the business (Santrock, 2007) and can be expanded if the business is handled properly (Zapalska et al., 2015).

According to studies conducted by Mazdan and Khiri (2014), individuals' action involved in business because it has the characteristics of a maturity, knowledge and ability to solve problems and make decisions. Personal features also include aspects of self-confidence which individual able to manage risk and liability in connection with the business. Self-confidence is important to control and manage the personal and business affairs.

External factors look at the contributions of external support to individuals involved in business. External support consists of 3 main elements which are training, infrastructure and finance. Elements of training in business it is important to start a business where entrepreneurs need to know about the marketing methods, financial management, technical and business management (business strategy) in order to maintain the continuity and growth of the business (Corso et al., 2003). Proper training enables them to become more efficient and will help create maximum profit (Fuller, 1994). Infrastructure facilities such as sites, machine, water, electricity and Internet are also key factors to start a business (Jutla et al., 2002).

Finance is crucial to start a business (Walker and Brown, 2004). Financial resources can be obtained from the assistance of the government and financial institutions. According to Kolawole and Torimiro (2005), government plays an important role to assist individuals to involve in business. However, studies conducted by Azhar et al. (2015) showed that business activity in rural areas does not require loans and financial assistance because of its size. Therefore, the financial resource requirements depend on the factor of location and nature of business activities.

3. Methodology

This study uses data obtained from questionnaires distributed to oil palm smallholders in some selected locations in Malaysia. Locations of the study include in the area of Johor, Selangor, Perak and Miri, Sarawak which have many smallholders who get guidance from Malaysia Palm Oil Board (MPOB, 2014). The selection of the sample of respondents to represent the population studied is performed from stratified random sampling. This amount is determined based on the justification that the amount deemed sufficient to represent a population of oil palm smallholders in each district.

Questionnaires which comprised 3 sections were distributed to the respondents. The first section is on the demographic details of the oil palm's farmers. The second part is related business profiles of the smallholders. Third part is related on the push factors and the involvement of the respondent in the business. Push factors are divided into six (6) key elements including opportunities, family, income, knowledge and skills, risk management/challenges and leadership qualities. Meanwhile, pull factors are divided into three (3) namely training, infrastructure and finance. All these factors are based on the arguments in past research and modified to suit the location and objectives of the study. The questions used five-point likert scale ranging from 1 "very unimportant" to 5 "very important".

Analysis was done using Structural Equation Models (SEM) with SmartPLS software. SEM was used to analyze the relationship between variables with linear equation representing the relationship of cause and effect between the variables. SEM covers

four main analyses which are descriptive statistics (mean), Exploratory Factor Analysis (EFA), evaluation of the measurement model and test path coefficient. Descriptive statistic test covers frequency and mean. EFA evaluates items outer loading while the assessment of the measurement model using Cronbach Alpha (CA) test, composite reliability (CR) and The Average Variance Extracted (AVE) are used to assess the validity of the data. Finally, path coefficient test is done to test the status of relationship and interests between the variables.

4. Findings and discussion

4.1. Demographic profiles of respondents

From Table 1, 85.4% of them are men. In terms of race, 62.9% are Malays and 22.5% are Ibans. Chinese and Bugis respondents are 12.4% and 2.2% respectively. In terms of marital status, 54 of them are married and 16 are single.

Majority of the respondents have between 4-6 children which is 50.6%. In education, 71.4% of the respondents have secondary school education. In terms of employment, most of them are self-employed i.e. 152 people (70.8%). A total of 47.6% of the respondents have a monthly income of between RM100-RM1000.

Table 1: Demographic profiles of smallholders (N = 178)

Description	Total	Percentages
Gender:		
Male	152	85.4
Female	26	14.6
Race:		
Malay	112	62.9
Chinese	22	12.4
Iban	40	22.5
Bugis	4	2.2
Marital Status:		
Single	42	23.6
Married	136	76.4
Number of children:		
None	16	9.0
1-3 person	68	38.2
4-6 person	90	50.6
7-9 person	4	2.2
Educational level:		
None	4	2.2
Formal education	38	21.3
Primary school	126	70.8
Highschool	4	2.2
Diploma	6	3.4
Occupation:		
Self-employed	152	85.4
Private sector	16	9.0
Public sector	10	5.6

4.2. Business profiles of oil palm smallholders

Table 2 shows the business profiles of oil palm smallholders. There are six types of businesses with food and drink is the most popular. Second, 40 people are engaged in the retail business. Out of the total respondents, only 74 of them registered their business.

Most of the respondents started business with their own savings (144 people) while 16 borrowed

from the bank is 16 people. Some had borrowed from Mara and other family members. According to Jasra et al. (2011), financial resources are very important to start business operation. A total of 18 people required RM400 to RM2000 to start their business. Fifty-six people (56) had an estimated net income of RM 250-RM 1 000 per month while four others earn RM 9 001-RM 11 000 per month.

Table 2: Business profiles of oil palm smallholders

Descriptions	Total
Business type:	
Food and beverages	52
Retails business	40
Poultry	10
Agriculture	38
Apparel	2
Oil palm related	34
Years involved in business:	
1986 – 2000	64
2001 - 2005	32
2006 – 2010	44
2011 – 2015	38
Type of registration:	
No	104
Registered	74
Source of startup capital:	
Personal saving	144
Banks	16
MARA	4
Family members	14
Amount of of startup capital:	
0400 – 2 000	82
2 001 – 4 000	46
4 001 – 6 000	24
6 001 – 8 000	16
8 001 – 10 000	10
Average net income from business:	
0250 – 1 000	25
2 001 – 3 000	56
3 001 – 7 000	52
7 001 – 9 000	20
9 001 – 11 000	4

4.3. Push and pull factors analysis

Analysis using descriptive test against the push and pull factors indicated that all of the items showed the mean value of 2.5 and above. The results of these tests indicated that all items specified by respondents were important. While for outer loading test, there are a number of items deleted for not meeting the requirements of statistics. Value of outer loading for each factor item should equal or exceed 0.4 (Hulland, 1999).

As shown in Table 3, for push factor of family encouragement, deleted items are “business site provided by family”, “encouragement family members to do business” and “family business continuity”. For the income level factor, deleted items are “to expect high profits”, “to receive extra income” and “to save for Hajj/umrah”. There are two deleted items in the knowledge/skills factor such as “having knowledge and skills in business” and “having specific skills in a particular field”. For leadership factor, there is one deleted item such as “high determinant”. Meanwhile for pull factors, there are three items deleted from the factor of infrastructure facilities (refer to Table 4).

4.4. Evaluation of the model measurement

The model measurement must meet the test criteria on Cronbach's Alpha (CA), Composite Reliability (CR), Average Extracted Variance (AVE) and Discriminant Validity Analyses. CA test showed values from 0.602 to 0.951. The value indicates that all items were very strongly correlated (Hair et al., 2007). CA is considered to be excellent if value is equaled or exceeded 0.9, very well if values are from 0.8 to 0.90, good if values are from 0.7 to 0.8, and admissible for values from 0.6 to 0.7.

CR tests are used to ensure the reliability of internal consistency. CR test results found that all these factors had consistent values. While the values

on Average Variance Extracted (AVE) are from 0.512 to 0.787, the value must be at least 0.50 AVE (Chin, 1998). Discriminant validity is usually examined by comparing the square root of AVE with the correlations between the focal construct and all other constructs. The loading of each indicator is higher for its respective construct than for any other constructs (Chin, 1998). Discriminant validity between constructs is acceptably high when the square root of AVE for each construct exceeds the correlations between that and all other constructs (Table 5). Therefore, reliability analysis and validation used in this study showed good discriminant and convergent validities.

Table 3: Push factors in business

Factors/Items	Mean	Outer Loading
Business Opportunity (BO):		
Take advantage of good econ conditions	4.546	0.938
Free from office hour schedule	4.335	0.764
Having the opportunity in business	4.552	0.884
Having the site/business premises	4.532	0.856
Collecting experience	4.565	0.906
Dreams on having their own business	4.611	0.930
Family Encouragement (FE):		
Supports from friends	3.855	0.631
The business site was provided by family	3.559	X
Encouragement from family to do business	3.440	X
Family business continuity	3.184	X
Desire to inherit the business to children	4.657	0.942
Income Level (IL):		
To generate family income	4.828	0.948
To expect high profits	4.348	X
To receive extra/side income	4.381	X
To cover children's education cost	4.756	0.929
To save for future/old days	4.519	0.807
To save for Hajj/Umrah	3.960	X
Knowledge and Skill (KS):		
Acknowledge the financial and capital position	4.539	0.693
Having knowledge and skills in business	4.000	X
To apply entrepreneurship lesson	3.585	0.735
Had a business experience	3.197	0.717
Having specific skills in certain field	2.835	X
Risk / Challenges Management (RCM):		
Foresee risks as business opportunity	4.078	0.963
Willing to take huge challenge in business	4.072	0.900
Able to analyze the business position	4.019	0.947
Understand the potential of business	4.414	0.659
Use the strength of the business opportunities in the market	4.407	0.763
Learning to take responsibility on their own	4.473	0.677
Leadership Skill (LS):		
High teamwork spirit	4.447	0.856
Don't need the help of another person	4.157	0.709
Able to communicate well with workers	4.335	0.801
Able to ensure workers follow instructions	4.335	0.728
Leadership values that helps in business	4.250	0.846
Self-confidence	4.671	0.662
High determinant	4.651	X
Measure the self-capabilities	4.585	0.883

4.5. The assessment of the structural model

Fig. 1 show the path coefficient push and pull factors. The results of the test path coefficient of push factors indicate that all elements have positive relationships. First, income has a positive relationship ($\beta=0.177$) in the respondent's engagement in business and they got involved in business due to income level ($t = 2.251^{***}$). Second,

family plays an important role for individuals who want to start business. This is shown with the results that family have a positive relationship and influence towards the participation of respondent in business. This shows that family encouragement have a positive element to continue the family business and gives positive feedback on respondents to engage in business.

The assessment of business opportunities is important to ensure the continuity of the business. Respondents noted that opportunity is an important element in determining the business engagement and this is proven by the results of the test (t -test = 3.993) and significant at 0.01 significance level. Also, elements of knowledge and skills show and significant level. This implies that knowledge or skills in business have powerful push factor to engage in business. Next, elements of risk management related negative ($\beta = -0.186$, $t = 1.829$, p -value = 0.01). This is because the respondents had the opinion that risk and challenges are seen as business opportunity. Finally, leadership skill indicated that leadership is important to help respondents got involved in business. The results against the push factors indicated that all factors are important and also showed that the formation of a motivational push towards business ($\beta = 0.306$, t -test = 4.263 ***).

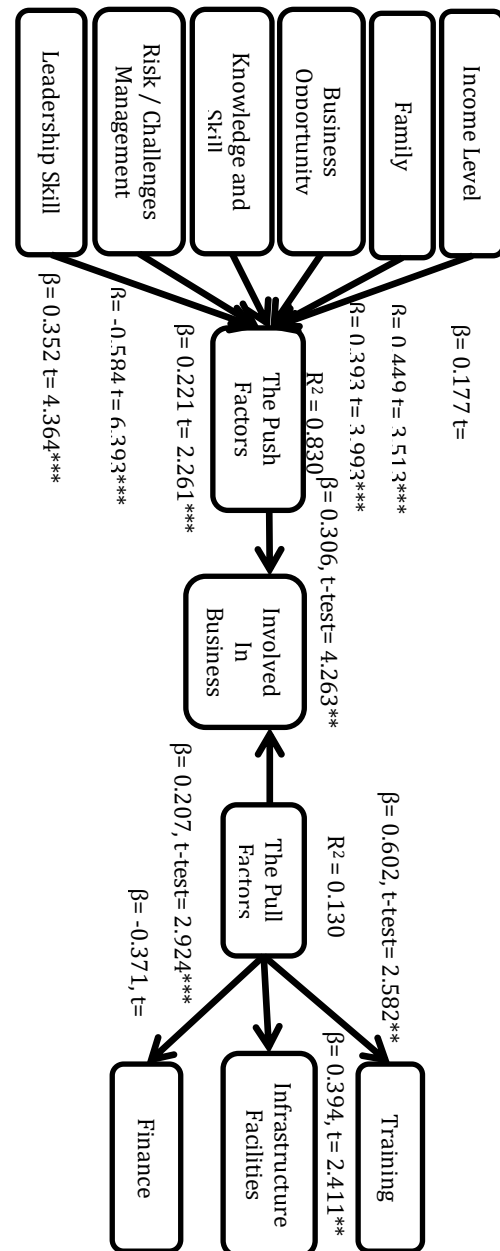
Table 4: Pull factors (External support)

Factors/Items	Mean	Outer Loading
Training (T):		
Marketing	4.052	0.698
Finance	4.039	0.712
Management	3.697	0.942
Technical	3.756	0.916
Infrastructure Facilities (IF):		
Sales premises/site	3.776	0.999
Machine	3.953	X
Water	3.763	X
Electricity	3.960	0.531
Internet	3.467	X
Finance(F):		
Loan	4.059	0.759
Financial assistance	4.098	0.960
Profit sharing	3.894	0.928

Table 5: Cronbach's alpha, composite reliability and average variance extracted

Factors	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
BO	0.951	0.960	0.773
FE	0.602	0.776	0.643
IL	0.732	0.873	0.775
KS	0.640	0.758	0.512
RCM	0.904	0.927	0.685
LS	0.900	0.919	0.620
T	0.946	0.940	0.727
IF	0.664	0.765	0.640
F	0.888	0.916	0.787

However, respondents still need external support factors to start a business. Test path coefficient and t -test on the attraction factors shows that there are essential three (3) elements to start a business. As shown in Fig. 1, factors of infrastructure facilities and training are important and relevant. However, the financial elements are less important to the respondent because most respondents began the business by using its own capital. The result is supported by Morrison (1996) that found small businesses did not need financial support because the transaction only involved a small environment and did not require a market share of production.



Significant: ***=0.010, **=0.050, *=0.10, β = beta, t = t -test

Fig. 1: Output research model

5. Conclusion

Recommendations based on findings can be used as guidance by individuals who want to engage in business. This study proposed that business engagement is dependent on the push and pull factors in business. It is clear from the study that overall respondents got involved in business based on the push and pull factors.

The respondents stated that "risk/challenges management" is in the most important factor followed by "leadership skill", "business opportunity", "family encouragement", "knowledge and skills" and "income levels". Individuals involved in the business must have the vision to view business as a significant risk that can be dealt with. At the same time, they are also capable of analyzing their business position in order to compete healthily. In terms of leadership, entrepreneurs need to have a high degree of teamwork at both in lower or upper

levels. This could help in the creation of new business innovations.

Individuals involved in business must take advantage of the business opportunity. However, they must identify the good economic climate so that their business won't be greatly affected with any economic turmoil. Factor on family encouragement is the emotional motivation related to engagement in business. Those involved in business usually want to pass their business to their children. This is because, they want to form the business legacy.

Entrepreneurs should have knowledge and skills such in dealing and negotiation. Experience will facilitate individuals in managing their business. Knowledge and skill could be gained by attending entrepreneurship and other relevant courses. For income, individuals need to have motivation to contribute more to the family income level since business can be one of the additional sources of income. In addition, people get into business with the intention to cover the cost of education for their children since the cost of education has increased over the years.

For pull factors, opportunity to attend "training" is most important. Followed by "infrastructure facilities" and "finance". Hence, individuals who wish to do business must be trained to follow certain ways so that the business will be more systematic. In addition, respondents agreed that infrastructure facilities are the most important element in the sales premise. Therefore, relevant authority should play a role in providing the business site to entrepreneurs especially to the SMEs. Next, finance will be the least factor because most of the respondents are running small scale businesses. However, financial aids are essential for entrepreneurs to expand their business.

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