

Entrepreneurial Skills and Business Success in the Informal Sector: A Qualitative Study

Nik Zirwatul Fatihah Ismail *, Mohd Rosli Mohamad

*Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan,
Kota Bharu, Kelantan, Malaysia*

Abstract

The informal sector's activities account for a significant proportion in production, consumption, employment, and development. There are contrary arguments saying that the informal sector would shrink and disappear on its own when the level of economy advances in the country, but the trend nowadays shows the opposite, where there is an expansion, mainly in business operating in the urban areas. In early entrepreneurship research, it only focused on finding general individuality and motives of successful entrepreneurs, where entrepreneurs require capability like traits, knowledge, and specific skills in order to be capable of achieving success as an entrepreneur. Yet, research on the relationship between entrepreneurial skills and business success is scarce, especially in the informal sector because of availability of data in terms of management, worker training, growth potential, and access to the world market. In this case, this study focused on entrepreneurial skill which is the most important factor that contributes to business success in the informal sector. The result of this study showed that communication and negotiation skills are the most influencing skills for the success of business in the informal sector in Malaysia.

Keywords: Business success, entrepreneurship skills, informal sector.

1.0 Introduction

The famous scholar Schumpeter stressed that entrepreneurial activity is the most important element for technological and organisational innovation in efficiency of products and services. According to Sexton (2000) and Smith (2001), the entrepreneur is equipped with personal skills as dominant reasons for success. In terms of skills, it would include competence, proficiency, attributes, and the ability to implement a plan very well, which may be related to knowledge, expertise, and capability (McLarty & Dousios, 2006). Meanwhile, Brush (2008) defined that personal skills can be learnable behaviours used by people to interact with each other, which are pertinent components

* Corresponding Author

E-mail Address: nickfatiha@gmail.com

for entrepreneurs in ensuring their business to run well and succeed. Additional skills may include negotiations, social adaptability, management, self-efficacy, and emotional expressiveness.

A study by Haber and Reichel (2007) found that entrepreneurial skills are the most influential factors that affect the sustainability of small businesses. The result pointed out that for human capital of entrepreneurs, mainly the managerial skill is the most contributing factor in achieving objectives, either in the short or long term of the business. Leadership skill, creativity, management, communication, risk taking, negotiation, customer focus, and ability to make decision as well as to work in teams are crucial entrepreneurial skills that have been listed by Giunipero (2005) in his research. This study emphasised skills from class work by Timmons (1994), who established a set of entrepreneurial skills as commitment, leadership, opportunity obsession, tolerance risk, creativity, and internal motivation.

Although those skills are treated as personal characteristics, it still can be learned. Markman and Baron (2003) affirmed that with appropriate short term training, all those skills can be gained and the researchers also acknowledged that these skills interact in complex behaviours with market forces, industry, and new technologies in order to determine the success of business. According to Foley and Green (1989), there is no generally accepted definition of business success and it has been interpreted in many ways and according to many thoughts. Business success refers to the enterprise's achievement in the marketplace, which may have different outcomes. Achievement can be characterised as the enterprise's ability to create suitable outcomes and dealings. Generally, success relates to the reaching of goals and objectives in whatever sector.

In the business circle, success is a keyword in the field of entrepreneurship, even though it is not acknowledged all the time. Therefore, success can be seen to have dissimilar meanings by different people but have a comparable idea of the phenomenon, for example sales growth, profit, reputation, stock turnover, survival, liability, and assets. In past study, business success was measured more in terms of finance, process, and also related to the theories, because it gives a clear meaning and easy to understand.

There have been big increases in living cost inequality in the Asian countries, while other countries, especially those in continental Europe, have a more stable living cost structure. At the same time unemployment has risen sharply in several Asian countries due to economic crisis and forced them to take informal jobs with low payment, no protection, and high risk exposure. This feature is very much different from the formal sector characteristics which pay attention to minimum wage, safety, access to capital, and tax payments.

The informal sector represents a component of the economic structure of many developing countries. The informal sector is a key form of organisation of production

and an important provider of employment and income in both rural and urban areas. It also can be considered as the starting point for an entrepreneur to engage seriously in the business world, which is from informal to formal. Castells and Portes (1989), and Webb et al. (2009) described the informal sector as consisting of economy behaviour that occurs outside of formal enterprise boundaries and remains within informal enterprise limitations for huge societal groups. A study by Schneider (2002) found that the informal sector represents a significant complement to the formal sector with recent estimates suggesting that it accounts for approximately 10%-20% of annual gross domestic product in mature economies. Enterprise in the informal sector is often smaller and has lower levels of productivity than formal sector enterprise. The GDP estimates that the informal sector explains are approximately 65% of employment in east and southeast Asia (WIEGO, 2010) and informal employment represents at least two thirds of non-agriculture employment in the world (ILO, 2012). Expansion of this sector is because it was driven by growth or responding positively to the market, especially to the domestic market.

Business success in the informal sector has been seen to involve entrepreneurs who have creative thinking in order to ensure the longevity of their business and this phenomenon is consistent based on the work of Schumpeter, a school of thought that associated entrepreneurship with innovation, services, processes, organisational forms, sources of supply, and markets (Schumpeter, 1934; Schumpeter, 1950). Entrepreneurs who engage in business activity are labelled as “creative destruction”, as they continually make obsolete existing methods by successfully introducing innovations. Therefore, entrepreneurial skills play an important role in order to ensure that the businesses are able to achieve their main goals. There are a lot of notable entrepreneurial skills but only they who are really able to master these skills can overcome the challenges of business, particularly in the informal sector. The Schumpeterian model (1934) refers to entrepreneurs as those who create new combinations regarding the opening and development of new markets, organisation, and industries—this reflects the perspective of entrepreneurial research, that informal sectors mainly in developing countries represent emerging market capitalism, allowing for the close inspection of the influence of individual properties on business formation and related outcomes (Moser, 1978). However, it is a surprise that evaluation of the informal sector from entrepreneurship perspective remains limited, with a few notable exceptions (Siqueira & Bruton, 2010). Ahmad, Ramayah, Wilson, and Kummerow (2010) confirmed that entrepreneurial skills are strong predictors of successful entrepreneurial activities. Through the various identified entrepreneurial skills, this paper reveals a deeper understanding of entrepreneurial skills mostly required by the entrepreneur to successfully navigate their business in the informal sector.

In many developing countries and countries with economies in transition, the informal sector is yet to be integrated into national accounts and less information is available on the contribution of the informal sector to economic growth. Even in cases where some

data are available, they are often not comparable at the international level, which use the construction of harmonised time series and comparative analysis across countries. Over the past two decades, employment in the informal sector has risen rapidly in all regions in the world. Until the recent Asian economic crisis, it was only rapidly expanding in the east and Southeast Asia. Approximately 1.8 billion people work in informal jobs compared to 1.2 billion who benefit from formal contracts and social security protection (OECD, 2009). The percentage of workers engaged in the informal sector in the world according to regions can be seen in Figure 1.

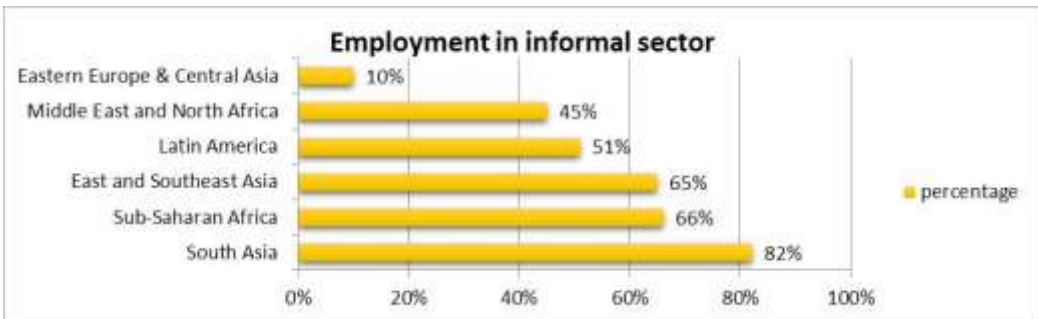


Figure 1: Informal employment as percentage of total urban employment in 2004-2010 (Source: WIEGO, 2012)

This paper is structured into six main parts. A review of the literature on entrepreneurial skills and specifically on communication and negotiation skills is presented in the second section. The third section describes the methodology of this research. The results are presented in the fourth section, while discussion and conclusion are elaborated upon in the fifth and sixth sections, respectively.

2.0 Entrepreneurial Skills and Business Success

Some entrepreneurs receive formal training and skill development, while others have a natural flair for it. Still, others break every rule or devise very unusual approaches, but still succeed. There are many skills that entrepreneurs must develop continually and improve overtime, usually by necessity but there are a few entrepreneurial skills that are needed even before starting the business. Being in business is extremely rewarding and there will be challenges to overcome, otherwise the business and dream will die. In today's world, success in business or as a business entrepreneur is certainly a continuous evolutionary process that all must undertake. In other words, there are entrepreneurial skills that each must practice, learn, and re-learn in order to thrive in today's business world. As the business environment changes, the entrepreneur needs to be able to adapt those skills to the surroundings.

According to Baron and Markman (2000), they highlighted that entrepreneurs' social skills, like specific competencies, help them interact effectively with others and may also play a role in their success. A high level of social capital, built on a favourable reputation, relevant previous experience, and direct personal contacts, often assists entrepreneurs in gaining access to venture capitalists, potential customers, and others. Once such access is gained, the nature of the entrepreneurs' face-to-face interactions can strongly influence their success. Specific social skills, such as the ability to read others accurately, make favourable first impressions, adapt to a wide range of social situations, and be persuasive, can influence the quality of these interactions. Research by Brockhaus and Nord (1980) revealed that entrepreneurial skills such as internal focus may have resulted in more active efforts to affect positively on business success rather than attributing less than desirable occurrences to being the result of luck and beyond the control of the entrepreneur.

Lumpkin and Dess (1996) used the concept of entrepreneurial orientation or skill to understand the emergence and success in business, which was extended from Covin and Slevin (1989) that described entrepreneurial orientation to be involved in innovation of products, and to undertake somewhat risky ventures while being proactively orientated. The authors suggested that the entrepreneurial orientation should be related to success because those skills influence how situations are perceived and what strategic decisions can be taken, because small scale businesses are more flexible than larger companies and react more quickly to crises. However, it should be cautioned that although the two concepts are distinct, they are interrelated in such a way that social and orientation can be understood as the skilled use of entrepreneurship skills.

Recently, there has been an increased interest in the psychological aspect to test entrepreneurial skills across different areas, such as economics, business management, education, and poverty improvement. By using entrepreneurial skill as the main issue, Maloney (2004) stressed that entrepreneurs choose to operate in informal sector after weighing costs and benefits of formality and informality scenarios. It is notable that entrepreneurial skills play an important role in determining business success due to global economic uncertainty. Entrepreneurship is the combination of personal values, managerial skills, experiences, and behaviours that characterise the entrepreneur in terms of their spirit of initiatives, risk propensity, innovative capacity, and management of the firm's relation with the economic environment.

Skills are critical in the structural adjustment of economies as it moves from relative dependence on agriculture production to manufacturing and service industries. Therefore, workers and enterprises must be able to learn new technical, entrepreneurial, and social skills (ILO, 2008). Therefore, it would be logical to suggest that entrepreneurial skills shape the longevity of business, but not the other way round, and there are a several crucial skills in entrepreneurship that can be considered as a factor to the success of a business.

2.1 Communication Skill and Negotiation Skill

In the information age, one has to send, receive, and process huge numbers of messages every day. But effective communication is about more than just exchanging information. It is also about understanding the emotion behind the information. Effective communication is a learned skill whereas it is more effective when it is spontaneous rather than formulaic. The ethnic entrepreneurship literature suggested that communication skill can be the most influence factor toward business success. Generally, effective communication skills are the set of skills that enable a person to convey information so that it is received and understood. Effective communication skills refer to the groups of behaviours that serve to send information for the individual. For example, in a study of the factors that influence the success of enterprises, entrepreneurs whose firms are a success would engage in great communication skills and are more effective and successful in their business (Duchesneau & Gartner, 1990). Communication also takes place between two or more people in a face-to-face setting (R.wayne, 2007). According to Purwanto (2006), communication between a person with others within a society or business by using certain communication skill will support the person to achieve a particular goal.

Along with communication skills, negotiation skills are also an ideal combination to achieve the business aim. Kissinger (1969) defined negotiation as the process of combining conflicting positions into a common position under a decision rule of agreement, plus negotiation always shifts in the environment and will usually lead to negotiation and higher chances of mismatch (Rindleisch & Heide, 1997). The primary way to attract the consumer is through word of mouth via relationship and social network (Fillieule, 2010; Maligali & Guerrero, 2008). Study by Venkataraman et al. (2012) in entrepreneurs' inter-subjective interaction showed that entrepreneurs use persuasion and exhibit expressiveness to meet their goals.

3.0 Research Method

In this study, data were collected by using the qualitative approach. This research drew samples from the population of informal sector entrepreneurs provided by petty traders' association for Perlis (W), Selangor (X), and Kelantan (Y). By using nonprobability sampling, the design judgment sample is the most eligible way to gather the information since this method stresses on the subjects that were selected on the basis of their expertise in the subject investigation (Sekaran & Bougie, 2009). Informants of the study consisted of entrepreneurs who have not registered with any authoritative organisation. Using open ended questions during interview, information was gathering by the researcher through face-to-face interview techniques with the selected informants. All interviews were conducted in the end of December 2014. An interview protocol was used to facilitate conversations. As a matter of fact, the early part of the interview protocol consisted of questions about entrepreneurs' background and premise profile,

while the second part consisted of questions pertaining to entrepreneurial skills that influence business success.

The interviews were conducted between 30 to 35 minutes on average at their own pace. All interviews were audio-taped with the consent of the respondents. The data were obtained through interviews with entrepreneurs and then transferred to word processor verbatim. The analysis of data was done manually and coding the questions was based on interview protocol constructs. The respondents were named persons W1, W2, and W3 (Perlis), persons X1, X2, and X3 (Selangor), and persons Y1, Y2, and Y3 (Kelantan). Analysis results of interview data are presented in the form of a narrative form.

4.0 Research Findings

4.1 Demography

From nine respondents, there were five males and four females, with the youngest respondent being 26 years old and the oldest respondent being 68 years old. The majority had between six to 25 years of experience in informal business. In terms of number of employees, they have not more than three employees and basically they are married couples. The start-up capital among them was between RM1,500.00 to RM3,000.00 using their own resources. Their products varied, but none were involved with agricultural products. Most of them sold garments, foods and beverages, and also crafts. As far as the education level is concerned, the respondent education varied, with most having completed schooling at the secondary level. Tables 1 and 2 show details of the background of respondents and their business profiles.

Table 1

Background of Respondents

Person	Gender	Age	Educational Level	Business Experience (Years)
W1	Female	45	Secondary	15
W2	Male	26	Secondary	7
W3	Male	34	Secondary	10
X1	Male	68	Primary	25
X2	Female	28	Secondary	10
X3	Female	33	Secondary	8
Y1	Male	57	Primary	11
Y2	Female	39	Secondary	6
Y3	Male	48	Secondary	9

Table 2

Business Profile

Person	Numbers Of Employees	Start-Up Capital (RM)	Years In Operation
W1	2	2,000	>5
W2	2	1,500	8
W3	2	3,000	6
X1	3	2,500	<20
X2	2	1,800	7
X3	2	2,300	10
Y1	3	1,500	9
Y2	2	2,800	5
Y3	2	2,100	6

4.2 Communication Skill and Negotiation Skill

When all respondents were asked about their opinion about which entrepreneurial skill that is most needed in order to achieve their business goals, almost all of them confirmed that communication skill and negotiation skill are the most required by entrepreneurs, except for respondents W2 and X2, who mentioned that negotiation skill is not necessary in order to achieve the business objectives. This is because they reasoned that most of their customers are regular customers that have been loyal for more than five years. An extract of the dialogue between enumerator and one of the respondents who supported that communication and negotiation skills are the most important factors that influence business success in the informal sector is transcribed below.

Enumerator: What are the most important entrepreneurial skills of business acumen in performing as successful in business especially in the informal sector?

Respondent: The best skills that every businessman should have in the informal sector are communication skill and negotiation skill.

Enumerator: Why?

Respondent: This is because those two skills play a vital role in this uncertainty economy situation. Communication and negotiation must be together in order to maintain and keep the business operating. This is what we call survival strategies for this environment of business, since we don't have a lot of aids and support.

The conversation ends, and the enumerator transcribed the result into Table 3.

The dialogue between the enumerator and the one of the respondent, that supported only communication skill as the most influential entrepreneurial skill for the success of business in this sector, is transcribed below.

Enumerator: What are the most important entrepreneurial skills of business acumen in performing successfully in business especially in the informal sector?

Respondent: The most influential skill is the communication skill.

Enumerator: Why only communication skill? How about negotiation skill?

Respondent: Yes, only communication skill, because this two way conversation assists a lot of understanding between owner and customer. It helps the owner to think quickly what the customer desires most. Negotiation skill doesn't help much because most of my customers are regular customers since five years ago.

The conversation ends, and the enumerator transcribed the results into Table

3. Table 3

Communication Skill and Negotiation Skill Results

Person	Communication skill	Negotiation skill
W1	/	/
W2	/	X
W3	/	/
X1	/	/
X2	/	X
X3	/	/
Y1	/	/
Y2	/	/
Y3	/	/

(/) = Important, (x) = Not Necessary

5.0 Discussion

This study was primarily an attempt to understand what the most important entrepreneurial skills that affect business success in the informal sector in Malaysia. To get a reliable result, this study conducted an interview session with the owner of the businesses who had been involved in business operations for more than five years. This study found that communication and negotiation skills were the vital essential skills in achieving business success since the informal sector does not get much attention from the entrepreneurial aspect. Having nine respondents that can be considered as experts in business in the informal sector, a lot of information had been gathered especially regarding entrepreneurial acumen and strategies to keep the business grow, even though during critical economic situations. Many of them pointed out that communication and negotiation skills can boost and keep the business afloat because these skills reflect the power of the businessman in order to achieve their goals and also enhance personal relationships with others. Those two important skills are the tools that can remove barriers in order to succeed in the business because communication is known as a two way discussion and can send important messages in order to assist the businessman to clearly understand the needs and demands, especially of customers. This reflects the general theory of communication skill, constructivism, by Jesse Delia in 1970s, where it is believed that there are individual differences in the capability to communicate. This view was expanded from other scholars, Jean Piaget (1896-1980) and George Herbert (18-1931), who considered that the communication skill is an ability to adopt or imagine the perspective of others.

With the current economic situation, every businessman ought to engage with the negotiation skill in order to keep the business alive. Having good negotiation skill is a must since the communication skill is already there to support in any situations that will help the business to have more influence and control (Pfeffer & Salancik, 1987). In the informal sector, negotiations practically use a win-lose-win approach where the businessman needs to calculate the profits and lose, but at the same time they need to sell their product (Mills, 2005; Lyons, 2007). In order to start, the businessman needs to know about “Best Alternative to a Negotiated Agreement” (BATNA), which consists of three steps, namely; 1) need to list everything that could possibly lead to not reaching an agreement, 2) explore the best options, and 3) finally choose the best option (Ury & Fisher, 1981).

From the results, this study concluded that the most influencing entrepreneurial skill for business success in the informal sector is communication and negotiation skills. These two skills, whether already existing or can be learned by the entrepreneur, will undeniably boost and maintain the survival of business mostly in the informal sector, since business owners in this sector are the most affected when it comes to the uncertain economic situation.

6.0 Conclusion

Studying the role of entrepreneurial skills in Malaysia is very significant since it can help the country to bridge the gap in human capital development. The informal sector helps to absorb labour of new arrivals in urban areas. Without the existence of the informal sector, generally, it is likely that social economic crisis can emerge, therefore destabilising the whole society (Madziakapita, 2003). As opposed to the formal sector, the informal sector capably creates a large number of jobs at very low capital cost, because it does not incur extra costs such as employment benefits. From the literature, it can be established that there are many gaps that can be found related to the informal sector, which is mostly from previous studies only focusing on issues such as agriculture, non-agriculture, strategy, process, historical perspective, poverty, employment, general skills, role of women, role of the sector, environment, economy, and characteristics. As a whole, these gaps could be filled by the differences in entrepreneurial skills as a variables, which may exist in a long-run relation among variables in this study without realising that the actual informal sector and entrepreneurial foundation have strong enough a relationship with each other. This is because the characteristics of players involved in this sector commensurate with the characteristics of an entrepreneur. In light of the fact that the informal sector is a new subfield of entrepreneurship, the limitations in this study can be related to the small sample of business owners, the tools for analysing the data, the types of tests that should be used to apply on the hypotheses, and many more, so for future studies, this paper recommends the use of a combination of qualitative and quantitative approaches to gather the information and maintain validity of the results.

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