

Success Factors for Small Rural Entrepreneurs under the One-District-One-Industry Programme in Malaysia

Radiah Abdul Kader
University of Malaya
E-Mail: radiah@um.edu.my

Mohd Rosli Bin Mohamad
University of Malaya
E-Mail: mohdrosli@um.edu.my

Ab. Azid Hj. Che Ibrahim
University of Malaya
E-Mail: azid@um.edu.my

ABSTRACT

This paper presents the determinants of small business success as perceived and experienced by rural entrepreneurs. A sample of small rural entrepreneurs under the One-District-One-Industry (ODOI) programme in Malaysia was surveyed using a structured questionnaire. Despite the importance of both internal and external factors, this paper found that the external factors are more dominant than the internal ones in contributing to the business success of the ODOI entrepreneurs. All the external factors extracted by factor analysis narrow down to the important role of the government in promoting small business success. Therefore, the government should continuously provide assistance and favourable environment conducive to small entrepreneurship in the rural area.

Keywords: Rural Entrepreneurs, One-District-One-Industry, Success Factors, Factor Analysis

INTRODUCTION

Rural-urban economic disparity is still a pertinent issue in Malaysia. For example, the mean monthly gross household incomes of the rural population in 2004 were far behind that of the urban inhabitants. At the same time the incidence of rural poverty was higher at 11.9 per cent compared with 2.5 per cent for urban poverty in the same year (Malaysia, 2006). This disparity is largely attributable to the fact that the urban population generally has access to higher income employment while the rural inhabitants rely heavily on low-income economic activities, especially in the primary sector.

One of the latest initiatives taken by the Malaysian government to boost rural income is to facilitate the growth of small enterprises under the One-District-One-Industry programme (briefly ODOI). Introduced in 2003, this programme was inspired by the success story of the One-Tambon-One-Product programme (OTOP) of Thailand. Both ODOI and OTOP are based on the Japanese One-Village-One-Product (OVOP) concept which began in Oita prefectural in 1979. OVOP works on three main principles namely “Think Globally, Act Locally”, “Independence and Creativity” and “Fostering Human Resources”. The first principle encourages rural entrepreneurs to produce at least one product of commercial value per village using available natural resources, local craftsmanship and creativity. To promote self-reliance, government subsidies are not provided for OVOP groups. Instead government aid comes in the form of technical assistance and R&D support for product development, assistance for marketing and distribution to reduce the transaction costs that local entrepreneurs have to bear if they were to execute product development and penetrate markets themselves. Finally under the third principle, human resources are developed through training in terms of leadership, management and community building as communities become engaged in the OVOP process.

The OVOP concept is very much in line with that proposed in economic development literature. Friedman (1987) and Mackenzie (1992) state that one of the primary measures to boost economic development and hence economic well-being in rural areas is by enhancing rural entrepreneurship. Wortman (1990) defines rural entrepreneurship as “the creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment”.

By the year 2002, the OVOP scheme in Oita had produced 800 products that were marketed locally and overseas with record total sales reaching US\$1billion (Yoshimura, 2004). In Thailand, OTOP was introduced in 2001 to revive the village

economy that was badly affected by the 1997 financial crisis as well as to generate domestic demand at the grassroots level. The scheme recorded tremendous success. Within a year a website that supported this scheme provided information on 2100 tambons (or cluster of villages) and 7,000 local products.

In the Malaysian case, the scope of the OVOP concept is broadened to one industry per district. This is in line with the Malaysian policy of integrated rural development that emphasizes on the role of districts to spearhead development of the rural sector (Fatimah Mohd Arshad *et al* 1997). In 2004, 78 districts out of 134 districts in Malaysia came under the ODOI programme producing products under four categories of industries, namely crafts, food products, rural industry products, as well as services and involved 1,420 entrepreneurs (MECD, 2004).

There are three-pronged objectives of ODOI; firstly to increase the quality of life of entrepreneurs through the provision of business and employment opportunities to the local people as well as to augment income and development, primarily in the rural areas; secondly to make use of natural resources and labour force in the rural areas more efficiently towards sustainable growth of the national economy; and thirdly to increase competitiveness among rural entrepreneurs by producing world-class products and services for the international market. Among the strategies identified by the government to materialize the ODOI programme include skill development, product development, marketing and promotion, monitoring and evaluation, quality control and resource management.

The ODOI concept can be illustrated by the approaches undertaken in the production of craft products. The first approach known as the “craft heritage village” is adopted if many entrepreneurs in a particular district are actively engaged in the same craft based on local expertise and wisdom. The other key requirements for this approach are the availability of sustainable supply of natural resources, a lead entrepreneur to commercialize production, infrastructure and basic amenities to support the area as a tourist destination and the readiness of the local community to get involved in development programmes. The second approach known as “ala factory” caters for enterprises which are already in the business of handicraft production. Those enterprises absorbed into the ODOI programme undergo expansion in production to the extent of being able to offer fulltime or part-time job opportunities to the local population. Priority is given to enterprises having their own workshops and those ready to upgrade their production status to SME status.

The One District One Industry (ODOI) programme is indeed a strategic approach that can improve the wellbeing of the rural population in Malaysia. By revitalizing

existing enterprises and creating new small businesses within districts, the ODOI scheme generates the multiplier effects of rural entrepreneurship. It promotes self-employment, new job opportunities, utilization of local resources and skills – all leading to much needed income, alleviation of rural poverty and sustainable growth. In order to reap these advantages, it is important that businesses under the ODOI programme thrive and succeed. The pertinent question is, “what are the success factors for businesses under the ODOI programme?” In view of that, this study attempts firstly, to identify the determinants of small business success as perceived and experienced by rural entrepreneurs under the ODOI programme and secondly, to recommend policy measures that could be taken to assist the rural entrepreneurs to be successful. This study is significant because no such studies have been done in Malaysia even though the programme has been implemented for the past few years. The findings should prove useful to the responsible agencies for the betterment of the programme and the rural entrepreneurs. At the regional level, the findings of this study would provide new knowledge and guidelines to other countries such as Cambodia, Bangladesh, Indonesia, Laos and the Philippines that have also embarked on the OVOP programme in recent years.

LITERATURE REVIEW

Small business success is defined in various dimensions by different scholars. As surveyed by Paige and Littrell (2002), its definition by intrinsic criteria include freedom and independence, controlling a person’s own future, and being one’s own boss; whilst extrinsic outcomes are, among others, increased financial returns, personal income, and wealth. Masuo et al. (2001) in their literature survey found that business success is commonly defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and non-pecuniary measures, such as customer satisfaction, personal development and personal achievement.

Determinants of business success are also diverse in nature. An extensive literature survey by Rogoff et al. (2004) found that internal and external factors are determinants of business success. The former refers to the characteristics of the owner or entrepreneur and business; whilst the later deals with factors beyond the control of the owner. Among other internal factors are size and years in business, the ability to attract outside capital investment, management, financing, planning, experience, and skill to implement any identified projects. The external or environmental factors are sales tax rates, infrastructure expenditure, university research, corporate debt, credit

market condition, business opportunity, availability of resources, economic conditions, competition, and government regulation. As surveyed by Wijewardena and Tibbits (1999), the success of small firms was attributed to entrepreneurial, managerial, or other personality attributes of owner-managers. Entrepreneur characteristics, such as gender, education, age, managerial skills, experience (Kallerberg and Leicht, 1991; Rowe et al. 1993; Masuo et al. (2001)), as well as physical and emotional support from family members (Green and Pryde, 1989), are important factors that influence business success. Business characteristics that affect business success are age, size, and location of business (Kraut and Grambsch, 1987; Kallerberg and Leicht, 1991).

The importance of government assistance to small business success is reported in a number of studies. Sarder, et al. (1997) conducted a study of 161 small enterprises in Bangladesh and found that firms receiving support services, such as marketing, management education and training, technical, extension and consultancy, information, and common facilities from the public or private agencies experienced a significant increase in sales, employment and productivity. Yusuf (1995) in his study on 220 small business entrepreneurs in the South Pacific region listed nine factors that would contribute to the success of small businesses; but the most critical factors were good management, access to financing, personal qualities and satisfactory government support. Yusuf (1995), however, found that government assistance was more critical for the success of small indigenous entrepreneurs than the non-indigenous ones.

On the contrary, some other studies found that government assistance was unimportant to small business success. Mambula (2004) in a case study on three small manufacturing firms in Nigeria found that those firms receiving credit and other forms of assistance did not perform better than those less privileged firms. Kirpalani and Macintosh (1980) studied 34 small and medium firms in the U.S and Canada and found that internal factors such as involvement of top management, R&D, technology, marketing mix and production function, and not government assistance that determined the firm success in international marketing. To them, government assistance is regarded as a hygiene factor in the sense that it is an enabling condition for small firms to compete in global markets, but insufficient for their success.

RESEARCH METHODOLOGY

Survey Instrument

This study relied on primary data collected by the survey method. The survey instrument was a questionnaire which consisted four sections: profile of the business

owner, the business background, internal success factors and external success factors. Success items (in the form of statements) comprising internal and external dimensions listed in the questionnaire were derived extensively from Wijewardena and Tibbits (1999) and Rogoff et al. (2004). A five-point Likert scale ranging from 1=strongly disagree to 5=strongly agree was used to measure the extent to which respondents agree or disagree to each of the statement. Internal factors that refer to the inherent characteristics of the business or the entrepreneur were measured in the questionnaire by variables such as innovativeness, business knowledge, hard work, strong financial resources, product competitiveness and business networking. Government assistance as an external contributing factor to rural entrepreneurs' success was measured by items such as financial assistance, training and extension services, marketing, moral support, technical assistance, infrastructure, and business-related policies.

Data Collection

Sample respondents in this study were rural entrepreneurs who were registered with ODOI under the Ministry of Rural and Regional Development and the Malacca State Government of Malaysia. The Ministry was the most relevant body in charge of rural entrepreneur development whilst the Malacca State Government represented the most successful ODOI programme at the state level. Under the Malacca State, the programme was divided into three districts specialising in food, crafts and clothing respectively.

The lists of entrepreneurs registered with both agencies provided a sampling frame for sampling purposes. The Malacca list registered 257 entrepreneurs of which 95 entrepreneurs who were labelled active were selected for this study. The respondents under the Ministry list were selected according to region, industry and district using the stratified random sampling method. Four states namely Kelantan, Perak, Selangor and Johor were selected to represent the eastern, northern, central and southern region of Peninsular Malaysia respectively. The aggregate number of entrepreneurs listed with ODOI in these four states was 344. Out of this total, 116 entrepreneurs were sampled at random representing about one-third of the population. Adding this to the Malacca sample, gives a total of 211 entrepreneurs sampled for this study. To test the suitability of the questionnaire, a pilot survey on 20 respondents were carried out by the researchers themselves. After taking into considerations all the input from the pilot survey, an actual survey was conducted by trained enumerators and lasted for three months. Finally, a total of 144 questionnaires were completed and used for analysis.

Data Analysis

While descriptive analysis was used to summarise the profile of the rural entrepreneurs and their business, factor analysis was employed in order to identify the determinants of business success as perceived by the small rural entrepreneurs. To test the relevance of factor analysis for the data set, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was applied. Based on Kaiser's (1974) recommendations, variables having KMO value less than 0.50 were dropped from this study. The average KMO value for the data set, as shown in Table 1, is quite high at 0.821, indicating that factor analysis is feasible for data analysis. The Bartlett Test of Sphericity is also highly significant, again suggesting that factor analysis can be applied to the data set since it is unlikely that the correlation matrix of the variables is an identity.

Table 1 Kaiser-Meyer-Olkin (KMO) Measure and Bartlett's Test

KMO Measure of Sampling Adequacy		0.821
Bartlett's Test of Sphericity	Approx. Chi-Square	5306.968
	df	1596
	Sig.	0.000

Source: ODOI Entrepreneur Survey 2005

The orthogonal method with Varimax rotation was employed to ensure that the factors extracted are independent and unrelated to each other. The objective of factor analysis is to group variables having large loadings (correlations) for the same factor. A variable with a high communality (loading) of 0.8, for example, indicates a high correlation between that variable and other variables sharing a common factor. For this study, only variables with factor loadings above 0.40 were included in the analysis as recommended by Kaiser (Bryman, 1990). The number of factors to be extracted was determined by the eigenvalue or variance accounted by each factor. Again, following Kaiser's criterion only factors having eigenvalues greater than 1 are considered significant in this study.

Initially 15 factors were extracted which accounted for 70 per cent of total variance. However, the reliability of each extracted factor was tested using the Cronbach's coefficient alpha. The minimum alpha score was set at 0.70, following Paige and Littrell (2002). As a result, eight success factors were retained (as shown in Table 2). Each factor reflects an underlying characteristic commonly shared by its component variables. These factors explained 53.6 per cent of total variance. Based

on the criteria that factors should represent at least 50 per cent of the total variance (Norusis, 1985), the eight factors were sufficient to explain the results of the study.

Table 2 Reliability Coefficients

Factor	Alpha Scores	Number of Items
I	0.94	10
II	0.88	8
III	0.91	4
IV	0.88	5
V	0.83	6
VI	0.80	4
VII	0.74	3
VIII	0.81	2

Source: ODOI Entrepreneur Survey 2005

RESULTS AND DISCUSSION

Profile of the Rural Entrepreneurs

Table 3 summarises the profile of the rural entrepreneurs under the ODOI programme.

The sample comprised mainly Malays (96.5 per cent) who were representative of the major racial group of the Malaysian rural population. The median age was 48 year old where more than half (56.7 per cent) belonged to the active working age of between 40 and 49 years old. Most of the respondents were married (89.6 per cent). It is interesting to note that about 60 per cent of the entrepreneurs were female. The higher percentage of female entrepreneurs in the sample may be explained by the fact that enterprises under ODOI were mostly labour intensive and that rural women have ventured into small businesses either as a means to seek extra income or as a career choice.

In terms of education, a large proportion of the respondents had secondary education (53 per cent), about 30 per cent attended primary school, and a small percentage (10.4 per cent) obtained tertiary education. Even though the entrepreneurs, in general, were not highly educated, they were not lacking in entrepreneurial experience. Most of them (86.1 per cent) were running their own businesses even before they joined ODOI. On average, they had between five to ten years of entrepreneurial experience. This finding shows that the ODOI programme, which started in 2003, not only created new entrepreneurs but were also helping the existing ones to develop and expand their businesses in an organised way.

Table 3 Profile of Entrepreneurs

Variable	Frequency	Per Cent
Sex		
Male	57	39.6
Female	87	60.4
Total	144	100
Race		
Malay	139	96.5
Others	5	3.5
Total	144	100
Age (years)		
Below 30	3	2.1
30 - 39	28	20.8
40 - 49	51	36.4
50 - 59	34	24.3
60 and above	24	17.2
Total	140	100
Marital Status		
Married	129	89.6
Single	15	10.4
Total	144	100
Education		
No education	2	1.4
Primary	46	31.9
Secondary	76	52.8
Tertiary	15	10.4
Total	139	100

Source: ODOI Entrepreneur Survey 2005

Profile of Business

Table 4 shows that the rural businesses were, by and large, small in size as justified by the total number of workers; where majority (54 per cent) employed between one to five workers and 13.3 per cent were owner operated.

Almost 40 per cent of the businesses were not registered. The registered businesses were mostly sole proprietorship (40.6 per cent). As mentioned earlier food processing was the most popular (50.7 per cent) business activity followed by clothing and handicraft production. Heavy concentration of small businesses in food making is consistent with the national statistics which reveal that small businesses are heavily concentrated in the food industry (Rosli, 2000) because it is much easier to start off compared to other industries.

Table 4 Profile of Business

Variable	Frequency	Per Cent
Business Registration Status		
Unregistered	55	39.8
Sole Proprietorship	56	40.6
Others	27	19.6
Total	138	100
Types of Business Activity		
Clothing	26	18.1
Food	73	50.7
Handicraft	25	17.4
Others	20	13.9
Total	144	100
Age of present business (years)		
less than 5	29	20.1
5-10	72	50.0
more than 10	43	29.9
Total	144	100
Number of workers		
none	13	13.3
1-5	53	54.0
6-10	23	23.5
above 10	9	9.2

Source: ODOI Entrepreneur Survey 2005

Determinants of Business Success

Table 5 reveals eight determinants of business success as perceived by the small rural entrepreneurs. By and large, many external factors, including government assistance in training and extension services, the external environment, market support by the government, market accessibility and networking, were seen highly important by the rural entrepreneurs for their business success. The only important internal success factor was entrepreneurial quality (Factor II). The other internal factors, such as pricing, delivery and services (Factor VII) and human resource (Factor VIII) contributed least to the explanation of small business success.

As for the first external success factor - government assistance in training and extension services - the types of training needed by the entrepreneurs in order to succeed were training in entrepreneurship, marketing, quality management, basic accounting and technical skills. Advisory services, business information and technical

knowledge were also rated highly by the respondents. This result is consistent with the findings of Yusuf (1995) which revealed that South Pacific entrepreneurs who had little or no formal education rated the level of education and training as the most critical ingredients for their business success. This finding implicitly supports the concept of managerial skills and management competence as the key features of successful small businesses as reported in previous studies. Ibrahim and Goodwin (1986) stressed that “inadequate management skill” was the common cause for small business failure. Ibrahim and Goodwin (1986) also noted that “increased management education” would be able to reduce small business failure. For the rural entrepreneurs in this study, access to such training and education through government assistance is crucial for them to achieve business success.

The second success factor perceived by the entrepreneurs was entrepreneurial quality. This is an internal success factor which includes good entrepreneurial behaviour and personal attributes namely innovativeness, hardworking, self-confidence and self reliance. These are innate qualities that differentiate an entrepreneur from a worker or manager. The entrepreneur is one who has the self-confidence to undertake risks and who is willing to work hard to explore market opportunities and create new innovations in return for potential benefits and profits (Petrin, 1994). This finding is also consistent with that in the study by Wijewardena and Tibbits (1999), Ibrahim and Goodwin (1986), Chaganti and Chaganti (1983) and Yusuf (1995) as discussed in the literature review. The perception among the rural entrepreneurs that such personal entrepreneurial characteristics are important for small business success denotes that the rural entrepreneurs in substance do not differ from entrepreneurs in other areas.

The third factor - the external environment - signals that besides individual entrepreneurial initiatives the enabling environment supporting these efforts is of utmost importance. As indicated by the first item, infrastructure and facilities (transportation infrastructure, communications, buildings, water and power supply, access to capital), are necessary inputs to rural development that will create a favourable environment for rural small businesses to succeed. An environment conducive to small businesses to succeed also depends on the domestic economic conditions and policies which refer to incentives and regulations that facilitate small business growth. Such enabling environment can only be provided by the government which further implies the importance of government support for rural entrepreneurs to succeed.

Table 5 Determinants of Small Rural Business Success

Factor	% of variance	Variables
I-Government Assistance in Training and Extension Services	14.0	Entrepreneurship course (.86), marketing course (.84), quality management course (.81), advisory services (.81), course on technical skills (.79), basic accounting course (.78), business information (.77), technical knowledge and skills (.66), moral support -site visit (.63), recognition/awards (.49).
II-Entrepreneurial Quality	7.3	Ability to satisfy customers (.76), good communication skills (.73), innovativeness(.70), hardworking (.66), good business knowledge (.61), good management (.55), self-confidence (.46), self-reliance (.42).
III-External Environment	6.7	Infrastructure and facilities (.91), domestic economic conditions (.90), government policy (.83), raw material supply (.76).
IV-Market Support by the Government	6.4	Sale promotion: national level (.71), sale promotion: state level (.68), government-appointed distributors (.66), supermarkets or tourist centres (.62), government procurements (.45).
V-Market Accessibility	5.2	Good networks with supermarket (.82), accessibility of products into supermarket, tourist centres (.80), good networks with wholesalers and retailers (.59), comparable quality of products (.44), able to penetrate niche market (.44), able to get market opportunity (.41).
VI-Networking	5.2	with entrepreneur development agencies (.75), with financial institutions (.68), with government officers in charge of business assistance (.55), with business associations (.48).
VII- Pricing, Delivery and Service	4.7	Good customer service (.77), competitive price (.70), meeting orders on time (.66).
VIII-Human Resource	4.1	Good teamwork (.83), skilled workforce (.78).

Note: Figures in parentheses are factor loadings.

The fourth factor is related to marketing. Poor marketing has always been recognised as a problem faced by small businesses (Salleh, 1990). For rural businesses, either a local market is not present or transaction barriers exist. In this study, the ODOI entrepreneurs perceived that market support provided by the government has been crucial in overcoming this obstacle and has helped them pave their way to success. The most important support has been the ODOI entrepreneurs' participation in sale expositions or carnivals organised by the government at the

national or state levels. Other market channels include government-appointed distributors, supermarkets, tourist centres, and government procurements.

Another aspect of marketing perceived as an important success factor by the ODOI entrepreneurs is market accessibility (Factor V). This is represented by good networks with supermarket, accessibility of products into supermarket and tourist centres, establishing good networks with wholesalers and retailers, offering comparable quality of products, the ability to penetrate niche market, and grabbing market opportunity. This factor has a strong connection with good networking (Factor VI) with government officers in charge of business assistance besides establishing networks with financial institutions and other business associations.

CONCLUSION AND POLICY IMPLICATIONS

This paper has empirically revealed that internal and external factors are crucial for the success of small business as perceived by rural entrepreneurs. Therefore, this paper has consolidated the arguments of other researchers in the literature that both internal and external factors which turn out to be the determinants of small business success are also true for the rural small business. However, the results of the study have shown that the external factors are more important than that of the internal ones in contributing to small business success in the rural areas. This implies that internal factors are necessary, but they are insufficient for the business success of the ODOI entrepreneurs.

The findings indicate that the government should actively play its pivotal role in (i) skill training since most rural businesses are labour intensive which involve skills and creativity; (ii) strengthening business competencies through more rigorous training; (iii) investment in infrastructure and facilities for a conducive local business environment; and (iv) effective market support services in terms of product promotion, market accessibility and networking.

Despite the national setting of this study, the findings should prove useful for parties involved in rural entrepreneurial development elsewhere. Firstly, in terms of training and education this study reveals what rural entrepreneurs need to know to succeed in business. The ODOI entrepreneurs agreed that technical and business skills including marketing, accounting, management and communication skills are needed. This information should prove useful for governments to develop training programmes for emerging rural entrepreneurs. The fact that most of the rural entrepreneurs are less educated in the above areas implies that long run development of entrepreneurial skills among students should be given more emphasis. An effective

way is to integrate the entrepreneurship curricula into the ordinary school subjects and activities both at the primary and secondary levels. This would equip school leavers with general entrepreneurship skills that would help them get involved in business activities upon leaving school.

Secondly, this study shows that the level of government support needed by the ODOI entrepreneurs to gain market access for their products are similar to that practised under OVOP and OTOP. It is evident that the success of OVOP in Oita is also due to the concerted efforts of the prefectural government in opening and expanding distribution channels and market accessibility; ranging from local street markets, numerous “Oita Fairs’ in big Japanese cities to the establishment of retail stores for OVOP products locally and overseas (Yoshimura, 2004). Similar efforts were also practised at the national level for OTOP products in Thailand. An example is the OTOP City annual trade fair organized by the government which provides local producers an opportunity to showcase their products to exporters and the general public hence making it possible for them to compete in the domestic and global markets. Another innovative distribution channel created and supported by the Thai government is the ThaiTambon.com website which provides necessary data and information to facilitate the sale and distribution of OTOP products online. It was reported that many local producers received orders from foreign customers through this website (Ministry of Interior, Thailand 2004). The policy implication here is that small rural entrepreneurs irrespective of under OVOP, OTOP or ODOI require strong and serious government support in marketing and distribution in order to achieve business success.

Finally it is worth noting that as pointed out by Pasaribu (2007) and Yoshimura (2004), besides the serious government support, the successful OTOP and OVOP entrepreneurs in Thailand and Japan were mutually supported by their local community capital. This refers to human resource development (the third OVOP principle) which involves the participation of the local people in the overall community development process. This includes offering educational opportunities for people who would play future leading roles in OVOP, successors to family businesses, women groups engaged in the OVOP scheme as well as others who can contribute to life-long education, volunteer education, single-mother household support or the promotion of ICT. This factor is not examined in our study and should be included in future research.

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