Determinants of Housing Developer’s Performance: A Case Study of Bumiputera Firms

(Penentuan Prestasi Pemaju Perumahan: Kajian Kes Firma Bumiputera)

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ABSTRACT

Despite the importance of the housing sector to the nation’s economy, little research has been conducted into the industry. In an industry dominated by Chinese businessmen, it is interesting to explore the factors affecting the performance of the minority players. This study thus focuses on Bumiputera housing developers in Malaysia. Using the mixed method approach, findings are based on the responses from 38 returned questionnaires and 18 interviews with industry players. Our analysis revealed that the performance of Bumiputera housing developers was influenced by the courses they had attended before starting their business, their propensity to take risks, geographical location-concentration strategy, and their close relationship with bankers and officers of local authorities. This study has significant ramifications for indigenous housing entrepreneurship in Malaysia.

Keywords: Entrepreneurship; Bumiputera housing developers; housing industry and firm performance

INTRODUCTION

In Malaysia, there are two categories of housing developers, public and private. Public housing developers are subject to the highest levels of government interference, while the latter is usually left to pursue their own objectives. Overwhelmingly, the responsibility for providing housing for Malaysia’s twenty-eight million inhabitants falls upon the private sector (Isa & Mohd-Jusan 2012; Jaafar et al. 2005a; Shuid 2004). According to Goh (1997a), private housing developers are the single largest providers of medium- and high-cost housing in Malaysia. Othman (1999) attributed the high performance of the private sector to Malaysia’s economic conditions, allowing the private sector to secure high returns. Datuk Seri Michael, current president of the Real Estate and Housing Developers’ Association (REHDA), reported that private housing developers have provided 78,500 units of low-cost housing despite being expected to provide only 77,700 units (The Star 2012).

Housing developers are entrepreneurs holding valid housing developers’ licences allowing them to build houses to be sold, thereby generating considerable profits from their investments (Jaafar & Ali 2011). According to Wan Mohd Dzulkifli (2009), individuals or companies who undertake to construct less than 4 housing units are not required to have housing developer’s licence. Such small-scale operators are referred to as housing contractors. In Malaysia, only a licensed housing developer is permitted to conduct housing development activities (Yusof 2004), and according to Foo and Wong (2014), a private developer is typically profit driven.

The scope of this study is on Bumiputera developers. The Bumiputera are the native people of Malaysia (Jaafar et al. 2010); the term literally meaning 'sons of the soil' (Roslan 2001; Sriskandarajah 2005). Compared with
non-Bumiputera developers, Bumiputera developers have significantly less penetration into Peninsular Malaysia’s housing development industry (Kamarul-Baharin 2004; Zainol & Abdul-Aziz 1999). Housing developers are encouraged, although not obligated, to register their companies with REHDA as the peak industry body representing property developers. However, REHDA does not record the ethnic status of company ownership, thus no Bumiputera-owned companies could be identified through this channel.

There are several reasons for the low number of Bumiputera developers in the industry. Jaafar et al. (2010) reasoned that the economic structure inherited from the former British colonizers had resulted in a low involvement of Bumiputera in the housing industry. This scenario was further complicated by the inequality of income between Bumiputera and non-Bumiputera (Roslan 2001), the Bumiputera having been historically concentrated in rural areas and notably poorer than their non-Bumiputera counterparts (Lessem 2009).

Consequently, since the earliest years of independence, much of the housing development industry in Malaysia has been controlled by ethnic Chinese (Jaafar & Sahari 2013), who comprise the second largest ethnic group in Malaysia after the Malay Bumiputera.

According to Johnstone (1984), housing is a speculative industry, known colloquially as a “rich man’s game.” Investing in housing development requires massive amounts of capital for an investment that can only be recovered several years later and with no guarantee that the property will sell at the anticipated price. As a high-risk industry involving a number of multifaceted relationships (Bowman & Thompson 2009), housing development relies on market fluctuation that entail changing economic conditions and consumer preferences (Buttimer Jr. et al. 2008). Furthermore, according to Goh (1997a), the various building industry rules and regulations often serve to keep Bumiputera developers out of the housing industry. For example, Wan-Daud et al. (2013) note that regulations requiring housing developers to provide a RM200,000 deposit in order to secure a licence have impeded the growth of Bumiputera developers. Further, Buang (1997) argues that there are no special privileges or incentives granted by authorities to support Bumiputera housing developers. Most government funds and intervention measures, as part of the NEP, were in the franchising, manufacturing and construction sectors. In an industry where economic considerations are paramount and requiring massive starting capital without any guarantee of returns, the relatively poorer Bumiputera were invariably handicapped, thus accounting for their low numbers.

Housing development firms are considered business entities, which concerns entrepreneurship. Although extensive studies on entrepreneurship are available, there are relatively few studies involving entrepreneurship in the property development industry. Most firm performance studies have focused on the manufacturing (e.g. Glancey 1998; Hashim et al. 1999; Moran & Meso 2008), construction (e.g. Jaafar et al. 2004, 2005b; Jaafar & Abdul-Aziz 2005; Lu et al. 2008), and mix industries (e.g. Bruderl & Preisendorfer 1998; Utsch et al. 1999).

However, Agus (1997) claims that there is a paucity of literature concerning Bumiputera developers. For instance, in one of the few studies of its kind Jaafar et al. (2005a) compare the performance of both Bumiputera and non-Bumiputera private housing developers based on their business networks. Few studies to date, either local or international, have examined entrepreneurship from the perspective of the property development sector. The only such studies that could be found are those of Hui et al. (2006) and Jaafar and Sahari (2013). Although there are studies currently being conducted on this topic, studies specifically dealing with Bumiputera housing developers and factors affecting their performance are not available. In order to bridge these gaps in the literature, the following specific objectives have been formulated for this study:

1. To identify the background and business set-up of registered Bumiputera developers, and the relationship of these factors with business performance; and
2. To investigate the relationship between the business strategies of Bumiputera developers and their business performance.

In the following section of this paper, we review the literature, as it currently stands, with respects to determining housing development firm performance. This will be followed by an outline of our research methodologies and a quantitative analysis of our results. The results of our interviews will demonstrate support for our hypothesis. We then undertake a discussion of these findings before the concluding with an outline of how these findings might serve some practical benefits toward ongoing economic development for Bumiputera Malaysians.

DETERMINANTS OF PERFORMANCE OF HOUSING DEVELOPERS

Firm performance issues have drawn the interest of researchers from various disciplines (Maes et al. 2005). Performance can be characterised as the firm’s ability to create acceptable outcomes and actions (Pfeffer & Salancik 1978). Firm performance has only two mutually exclusive outcomes: success or failure (Ostgaard & Birley 1995).

Exactly what combination of factors results in the successful performance of a firm remains somewhat of a mystery (Rosli 2011). Successful performance would appear to be somewhat determined by environmental influences and entrepreneurial strategies (Shane & Kolvereid 1995). However, academics from within the strategic management area speculate that firm-specific factors might override all other factors in determining firm performance (McGahan & Porter 1997).
A number of investigators have come to the conclusion that internal factors play an important role in determining firm performance (Fielden et al. 2000; Guzman & Santos 2001; Jaafar 2003). Internal factors, also known as endogenous factors, are firm-based and include personal and behavioural aspects (Abdul-Kader et al. 2009), and controllable resources and capabilities such as owner/manager characteristics, firm characteristics, management expertise, production competencies and strategy (Ali 2011; Ligthelm & Cant 2002). Apart from that, it also focuses on the government role and external resources (for example, financial and technical resources, and human capital within networks) in promoting and influencing the firm operation. Table 1 highlights a number of previous studies concerning firm performance.

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personality characteristics</td>
<td>Ardichvili et al. (2003); Beugelsdijk &amp; Noorderhaven (2005); Hashim et al. (1999); Jaafar and Abdul-Aziz (2005); Owens (2003); Sadler-Smith et al. (2003)</td>
</tr>
<tr>
<td>Management skills</td>
<td>Jaafar and Abdul-Aziz (2005); Sadler-Smith et al. (2003); Sambasivan et al. (2009)</td>
</tr>
<tr>
<td>Firm characteristics</td>
<td>Barbieri &amp; Mshenga (2008); Entrialgo et al. (2001); Shoobridge (2006)</td>
</tr>
<tr>
<td>Strategy</td>
<td>Chorev &amp; Anderson (2006); Hashim et al. (1999); Nebhwani et al. (2011)</td>
</tr>
</tbody>
</table>

**BACKGROUND OF OWNER/MANAGERS**

The demographic profile of owners/managers has been a focus area for many entrepreneurial studies researchers. It has been argued that this profile is important because the behaviour of owners/managers will invariably influence the business. Often measured profile variables include gender (Fairlie & Robb 2009; Klapper & Parker 2011; Robb & Watson 2012), age (Abdullah 1999; Masuo et al. 2001), education level (Deakins et al. 2005; Lussier & Pfieifer 2001; Wagner & Sternberg 2004), and work experience (Harada 2003; Lee & Tsang 2001).

Estrin and Mickiewicz (2009) note that male entrepreneurs significantly outnumber female entrepreneurs in many parts of the world. Nevertheless, there are a wealth of studies describing how female business owners, on average, achieve lower returns than male entrepreneurs, implying that the female business owners are less successful (Bosma et al. 2004; de Mel et al. 2009). Similarly, it has been argued that males possess significantly more entrepreneurial skills and abilities than females (Wilson et al. 2007; Zhao et al. 2005).

Formal education provides entrepreneurs with the technical and soft-skills that are needed in the business environment (Rhodes & Butler 2004). The literature is very clear, that entrepreneurs with advanced educational backgrounds perform better in sustaining and growing their businesses (Ramachandran & Kedia-Shah 1999). Having prior related business experience has also been shown to be somewhat predictive of business performance and is important to the success of new and established ventures (Luk 1996; Reuber & Fischer 1999).

**ENTREPRENEURIAL CHARACTERISTICS**

While there are varying definitions operationalizing entrepreneur and entrepreneurship in the literature, entrepreneurship is more generally defined as the creation of organisations (Gartner 1988), whereas entrepreneurial activities take place in the context of a firm (Kirzner 1973). Exploring entrepreneurial characteristics can help to identify the traits that differentiate successful entrepreneurs from the less successful; and to identify those traits which contribute toward the success of a firm (Jaafar et al. 2004; Jaafar & Abdul-Aziz 2005; Owens 2003). Among the most common traits mentioned in the entrepreneurship literature are: 1) independence, 2) self-confidence, 3) ability to learn from failure, 4) propensity to take risk, 5) achievement motivation, 6) tolerance for ambiguity, 7) innovativeness, 8) acquisitiveness, and 9) locus of control.

Individuals with an intrinsic need for achievement tend to be proactive and take a bold approach toward accomplishing their tasks (Beugelsdijk 2007; Cromie 2000). Such people strive to challenge themselves and work toward self-improvement (Rauch & Frese 2000; Utsch & Rauch 2000). Owners/managers who exhibit a high tolerance for ambiguity tend to be more entrepreneurial (Whetten et al. 2000) and successful in their business ventures (Gurol & Atsan 2006; Nickels et al. 2005). Owners/managers with an internal locus of control believe in their ability to control key business variables that ultimately determine the success or failure of such ventures (Morris & Zahra 2000). Evidences from previous studies suggest that entrepreneurs are more innovative (Koh 1996) than their non-entrepreneur counterparts.

Risk-taking means an inclination toward taking bold actions with the expectation of rewards associated with the success of a proposed situation. According to Kunene (2008), when analysing opportunities and spreading one’s risk, an entrepreneur will weigh their risk-taking propensity against an assessment which combines all the various factors that associated with a scenario (Kunene 2008). Gilmore et al. (2004) associate the dominant areas of business risk as pertaining to cash flow, company
size, entering new markets, and entrusting staff with responsibilities. The entrepreneur’s risk-taking traits will help the company to perform. Therefore, risk-taking propensity plays a major role in determining the success of a firm (Gurrol & Atsan 2006; Hisrich & Peters 2002; Stewart Jr. et al. 2003).

FIRM CHARACTERISTICS

The importance of firm characteristics has been recognised in the entrepreneurship literature despite the empirical evidence correlating firm characteristics and performance being sparse. Firm characteristics can be measured in terms of a company’s profile and business strategy.

According to the previous literature, the most common firm characteristics profiled include the age and size of a firm. As a firm grows older, there is more pressure to maintain internal consistency (Aldrich & Auster 1986), and it is noteworthy that many academics have reported younger firms manifesting significantly more rapid growth and success compared with many older firms (Box et al. 1993; Glancey 1998). In terms of the size of a firm, Glancey (1998) reported a significant relationship between a firm’s size and its performance. However, according to Entrialgo et al. (2001) and Indarti and Langenberg (2004), the size of a firm does not determine its growth or success.

A business strategy is a long-term plan of action a company intends to pursue to achieve growth and success (Zahra & Covin 1993). A number of studies have demonstrated that the most important determinant of an organization’s competitiveness and profitability is its implementation of a well drafted business strategy (Abubakar et al. 2010; Kickul & Walters 2002). According to Chandler (1962), there are four types of generic strategies applicable to any business type, namely, expansion of volume, geographic dispersion, vertical integration, and product diversification. In the housing sector, Ho (2006) posits the strategy of prime location as the key determinant of the success housing project.

PERSONAL NETWORKING

Gilmore and Carson (1999: 31) defined a network as, “a collection of individuals who may or may not be known to each other and who, in some ways, contribute something to the entrepreneur, either passively, reactively, or proactively, whether specifically elicited or not.” Personal networking involves establishing good working and personal relationships with other people (Taormina & Lao 2007), and these relationships can play a significant role in the entrepreneurial process (Klyver 2006; Rose et al. 2006; Taormina & Lao 2007). Social networks provide a mechanism through which the entrepreneur obtains information and other precious resources which can be used to leverage support for further developing their business (Drakopoulos-Dodd & Patria 2002; Greve & Salaff 2003; Harris & Wheeler 2005). Consequently, there is a wealth of literature recognizing the invaluable contribution of personal networks to the success of an entrepreneur (Greve & Salaff 2003; Jaafar & Abdul-Aziz 2005; O’Donnell et al. 2002; Park & Luo 2001; Taylor & Pandza 2003) and several studies have established a relationship between networking and firm performance (Fuller-Love & Thomas 2004; Owens 2003).

FIRM PERFORMANCE

A survey of the literature reveals a variety of ways to measure financial performance and that there is no single universally accepted indicator of firm performance (Box et al. 1993). Firm performance can be measured using either financial or non-financial indicators. Financially, firm performance is measured by way of profitability and growth. Previous studies have investigated profitability using indicators such as return on investment (ROI) (Saad & Patel 2006), return on assets (ROA) (Kropp & Zolin 2005), and actual profit (Sriprasert et al. 2011). Alternatively, growth has been investigated in terms of employment growth (Sriprasert et al. 2011), sales turnover (Sriprasert et al. 2011; Walker & Brown 2004), and sales growth (Puspowarsito 2006; Sriprasert et al. 2011).

METHODOLOGY

Based on the abovementioned literature, a framework was developed for this research as shown in Figure 1. According to the proposed framework, entrepreneurship factors are divided into three components: 1) owner/manager; 2) firm characteristics; and 3) personal networking.

The owner/manager in this context refers to the individual(s) who owns or runs a company. These components have been structured into the model in order to establish the role of owner/manager in the housing development industry; most studies having focused on the manufacturing, construction, or mixed SME industries. Another reason for the inclusion of these components is because previously studies investigating the owner/manager criteria in relation to firm performance have obtained inconsistent results. We hope to learn more about what is function the owner or manager plays in overall success of a firm.

Since housing development is a speculative investment, entrepreneurs must rely upon a pool of knowledge, either general business/economic knowledge or knowledge related to the specific property development, to ensure that any investment made toward a project is unlikely suffer a negative return. While the entrepreneurs’ educational background certainly goes toward their body of knowledge, Jaafar (2003) notes that knowledge obtained from attending shorter courses and seminars also helps to reduce the probability of failure in SME industries.
Beyond that, previous work experiences in related fields can assist the developer in managing and making good decisions. The hypothesis follows:

\( H_1 \) Different owner/manager characteristics lead to differences in firm performance.

Housing developers are entrepreneurs who construct houses for profit; individuals that become entrepreneurs are usually those who are driven to be financially independent and those who prefer to work for themselves rather than to be employed. Hence, the following hypothesis:

\( H_2 \) There is a relationship between entrepreneurial characteristics of owners/managers and firm performance.

The literature review suggests the existence of possible relationships between a firm’s characteristics, adopted strategies, and firm performance. Therefore, the following hypotheses were developed:

\( H_3 \) There is a relationship between the characteristics of a housing development firm and the firm’s performance.

\( H_4 \) There is a relationship between the business strategy as practiced by a housing development firm and the firm’s performance.

In this model, personal networking refers to the relationships between developers and external parties which can enhance their business growth. Thus, the following hypothesis was developed:

\( H_5 \) There is a relationship between personal networks and firm performance.

**SAMPLING PROCEDURE**

For this study, a multi-method sequential explanatory design was adopted to gather data and relevant materials about the research topic. Addresses of respondents were gathered from various sources, namely: 1) the Ministry of Housing and Local Government’s (MHLG) website; 2) the REHDA 2004/2005 directory; 3) the Malay Chamber of Commerce; and 4) local authorities from every state throughout Malaysia. From these sources, only 175 Bumiputera housing developers were identified. Telephone calls were made to these 175 companies seeking their cooperation to take part in the survey. From these telephone calls, we learned that 50 firms were no longer in operation, while a further 15 firms declined to participate. The questionnaire was then sent to the remaining 110 Bumiputera firms and of these only 12 returned completed questionnaires. A second follow-up telephone call was made to the outstanding 98 Bumiputera firms leading to a total of 38 responders. Respondents were owners/managers of housing developer firms from right across Peninsular Malaysia. Due to the limited number of responses, only cross tabulation and correlation analysis were used to analyse data. One section of the questionnaire asked respondents to indicate their willingness to be interviewed for the second stage of data collection. Of the 38 responders to the questionnaire, only 18 respondents agreed to be involved in the second stage interviews. These second stage interviews were used to collected data that would elucidate upon the quantitative responses already given in the questionnaire.

A sequential explanatory design is characterised by the collection and analysis of quantitative data, followed by the collection and analysis of qualitative data. This design allows qualitative data to assist in explaining and interpreting the previously collected quantitative data (Creswell 2003). The housing market is very large and quantitative methods alone (e.g. postal surveys) might be insufficient for analysing such a large possible population. Face-to-face interviews with firm owners/managers were subsequently conducted to expand upon our understanding of the subjects studied in the quantitative stage of this study. During the interviews, respondents could express their views regarding the housing development industry in Malaysia and offer their own often valuable opinions on the subject currently being investigated. Therefore, the sequential explanatory design allows the researcher more latitude to make precise and meaningful interpretations as a result of such interviews.
QUESTIONNAIRE DESIGN

The respondents’ background were measured in terms of their position, age, education attainment, area of specialization, courses attended before and after they started their businesses, reasons for operating the businesses, work experience, and entrepreneurial characteristics. Entrepreneur characteristics were measured based on the selected personality characteristics using a five-point Likert scale, which ranged from “unimportant” to “very important.” In terms of company background, the questions were on age and size of the businesses. Business strategy refers to the activities practiced by housing companies to ensure the success of their firms which involves market, business activity and sale and geographical aspects (Chandler 1962; Hoskisson et al. 1999). For firm performance, the items were measured using a seven-point Likert scale, which ranged from “decrease more than 20%” to “increase more than 20%” to measure growth of firms in terms of sales and profit margins. This scale was used by Puspowarsito (2006) in the context of small and medium sized business in the manufacturing sector.

ANALYSIS

DEMOGRAPHIC PROFILE AND FIRM PERFORMANCE

The majority of the respondents who took part in the postal survey were top-tier managers (22 respondents, 57.9%) (e.g. Director, Executive Chairman, CEO), followed by middle-management (16 respondents, 42.1%) (e.g. managers and assistant managers). Based on the interviews, it was found that in many companies, middle-managers were given extensive responsibilities ranging from supervising the firm’s day-to-day operations, such as administration, to more technical aspects of the firm’s core business and strategic planning. Nevertheless, the owner of the company remained in charge of the firm’s finances. Owners did not leave the entire operation solely in the hands of managers because, at the end of the day, the owner would still be held responsible for any profits or damages incurred by the manager. A manager from Kedah explained that his Chairman trusted him to run most of the firm’s operations by himself, the only exception being the firm’s finances. For these financial matters, the Chairman would discuss the issue with him before making a final decision.

Consistent with international trends, males dominate the housing development industry in Malaysia. Only the one female housing property developer took part in our survey. However, only the male participants agreed to take part in our interviews. The majority of the sampled Bumiputera housing developers (29 respondents) received a formal education up to a tertiary level; with 23 respondents having specialised in housing-related fields (e.g. building, planning, architecture, construction, and engineering). Twenty-six respondents had worked in housing-related industries (e.g. construction, architecture, ready-mix) before embarking on their housing development careers. Most respondents set out on their housing development careers between the ages of 25 – 45 years (24 respondents). Eight respondents became housing developers before the age of 25; while 6 of the respondents became developers after the age of 45. And more often than not, they chose to become housing developers based on their own initiative (18 respondents) and because they were genuinely interested in the field (21 respondents). Few respondents (6 respondents) cited money as a primary reason for them having involved themselves in the housing development business.

Table 2. Cross tabulation test between the Bumiputera respondent’s demographic profile and firm performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>Phi value</th>
<th>Aprox. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of education</td>
<td>0.422</td>
<td>0.66</td>
</tr>
<tr>
<td>Attend courses before starting the business</td>
<td>0.668**</td>
<td>0.049</td>
</tr>
<tr>
<td>Attend courses after starting the business</td>
<td>0.482</td>
<td>0.452</td>
</tr>
<tr>
<td>Working experience</td>
<td>0.407</td>
<td>0.710</td>
</tr>
<tr>
<td>Age as a developer</td>
<td>0.926</td>
<td>0.632</td>
</tr>
</tbody>
</table>

Note: ***p ≤ 0.01, **p ≤ 0.05, *p ≤ 0.1

The results from Table 2 indicate that only one variable, attending courses before starting the housing company, had a significant impact on firm performance. Other measures were not significant to firm performance.

RESPONDENT’S ENTREPRENEURIAL CHARACTERISTICS AND FIRM PERFORMANCE

From Table 3, it can be surmised that the sampled Bumiputera housing developers unanimously agreed that individuals who want to become developers must be self-efficacious, able to respond to ambiguous situations, willing to learn from mistakes, independent, and acquisitive. A correlation test was carried out to determine the relationship between the Bumiputera respondent’s entrepreneurial characteristics and their firm’s performance. The results are summarized in Table 4.

Table 4 indicates that only the “propensity to take risks” variable produced a significantly negative
relationship with firm performance. This negative relationship suggests that the greater one's affinity for risk-taking, the greater the negative impact on firm performance. Out of the 18 interviewees, 11 revealed their philosophy that a propensity to take risks was the most important attribute in determining whether a developer succeeds and survives in the industry. According to these interviewees, housing is an inherently risky business by virtue of the fact that whatever investments are made today can only be recouped once a project is completed. Consequently, risk-taking and risk-assessment were seen as integral aspects of the day-to-day decision-making role of a housing developer. According to one managing director, before buying any land for development, background research on the location and condition of the land would be conducted to ensure that it was viable for development. He stressed the importance of taking calculated risks in the housing industry and said, “As a developer, you must take calculated risks. Don’t jump into the wagon until after you’ve checked the condition of the wagon.”

**COMPANY’S PROFILE AND FIRM PERFORMANCE**

A cross-tabulation test was conducted to determine the relationship between the sampled Bumiputera firm’s profile and firm performance. The results are presented in Table 5. Based on the results, it can be concluded that there was no significant relationship between the profile of a company and its performance.

**TABLE 3. Summary of the sampled Bumiputera housing developer’s entrepreneurial characteristics**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Means</th>
<th>Std. Deviations</th>
<th>Level of importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-efficacy</td>
<td>4.07</td>
<td>0.475</td>
<td>Important</td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>3.63</td>
<td>0.786</td>
<td>Important</td>
</tr>
<tr>
<td>Ability to learn from failure</td>
<td>3.61</td>
<td>1.010</td>
<td>Important</td>
</tr>
<tr>
<td>Independent</td>
<td>3.59</td>
<td>0.979</td>
<td>Important</td>
</tr>
<tr>
<td>Acquisitiveness</td>
<td>3.57</td>
<td>0.887</td>
<td>Important</td>
</tr>
<tr>
<td>Internal locus of control</td>
<td>3.32</td>
<td>0.889</td>
<td>Moderately important</td>
</tr>
<tr>
<td>Propensity to take risk</td>
<td>2.89</td>
<td>0.981</td>
<td>Moderately important</td>
</tr>
<tr>
<td>Powerful others locus of control</td>
<td>2.67</td>
<td>1.043</td>
<td>Moderately important</td>
</tr>
</tbody>
</table>

**Note:** Notations used for level of importance: <1.49: unimportant; 1.5-2.49: little important; 2.5-3.49: moderately important; 3.5-4.49: important; and 4.5-5.0: very important.

**TABLE 4. Correlation tests between the Bumiputera respondent’s entrepreneurial characteristics and firm performance**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pearson correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-efficacy</td>
<td>0.054</td>
<td>0.746</td>
</tr>
<tr>
<td>Powerful others locus of control</td>
<td>-0.044</td>
<td>0.794</td>
</tr>
<tr>
<td>Independent</td>
<td>0.017</td>
<td>0.918</td>
</tr>
<tr>
<td>Propensity to take risks</td>
<td>-0.382**</td>
<td>0.018</td>
</tr>
<tr>
<td>Acquisitiveness</td>
<td>0.055</td>
<td>0.741</td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>-0.072</td>
<td>0.667</td>
</tr>
<tr>
<td>Ability to learn from failure</td>
<td>-0.091</td>
<td>0.589</td>
</tr>
<tr>
<td>Internal locus of control</td>
<td>-0.155</td>
<td>0.353</td>
</tr>
</tbody>
</table>

**Note:** ***p ≤ 0.01, **p ≤ 0.05, *p ≤ 0.1

**TABLE 5. Cross-tabulation tests between the sampled Bumiputera company’s profile and firm performance**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Phi value</th>
<th>Approx. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm’s age</td>
<td>0.683</td>
<td>0.473</td>
</tr>
<tr>
<td>Number of working employees</td>
<td>0.567</td>
<td>0.836</td>
</tr>
<tr>
<td>Business paid-up capital</td>
<td>1.015</td>
<td>0.330</td>
</tr>
</tbody>
</table>

**Note:** ***p ≤ 0.01, **p ≤ 0.05, *p ≤ 0.1

**BUSINESS STRATEGY OF A FIRM AND ITS PERFORMANCE**

A cross-tabulation test was conducted to determine the relationship between the business strategy of a Bumiputera firm and its performance. The results are summarized in Table 6. The results clearly show that for housing development firms, the only business strategy significantly related to the success of the firm is a focus on the geographical aspect or where to build and develop. This finding corroborates our interview findings which indicated that the geographical aspect played an important role for enabling housing developers in Malaysia to continue in the industry and become successful.
One interesting result to come out from the interviews was that the majority (i.e. 66.7%) of those interviewed preferred to restrict their housing development activities to whichever state their primary administration centers were situated in, often the state in which they started their first development. Instead of diversifying into other states, housing development entrepreneurs saw business opportunities in their states as sufficient and did not see any need to expand elsewhere. According to a managing director from Selangor, another reason for his decision to maintain his business in Selangor was his familiarity with the state’s rules and regulations on housing, from the approval stage through to the implementation process. Although the basic procedure for housing project implementation tended to be similar from one state to another, each state has its own particular set of rules for the housing development process. Expanding into other states would require developers to start all over, from identifying market trends to familiarizing themselves with the new environment and concerned local authorities. Given the abovementioned reasons, coupled with the complexity and high risks faced by housing development firms, he was comfortable with maintaining his operations in Selangor since the business opportunities in that state were more than enough.

RESPONDENT’S PERSONAL NETWORKING AND FIRM PERFORMANCE

A correlation test was conducted to determine the relationship between the sampled Bumiputera housing developer’s personal networking with professional/non-professional agencies and the success of their firms. The results, which are summarized in Table 7, indicate that only two variables, personal networking with bankers, and personal networking with officers from local authorities, had significant relationships with firm performance. This finding was further supported during the interviews with respondents.

The interviewees unanimously agreed on the importance of building good relationships with professional and non-professional agencies. Twelve out of the 18 interviewees stressed the importance of having good relationships with officers from local authorities to ensure the success of their housing projects. More often than not, the housing development process requires a long approval time primarily due to technical matters. Having good relations with local authorities could facilitate this approval process. According to some respondents, relationships with state local authorities can open avenues for direct and personal advice and assistance, ensuring that problems are minimised and that projects run more smoothly. Furthermore, the importance of maintaining rapport with local authorities was plainly obvious, given their authority to determine and approve the actual implementation of housing projects. Developers may only apply for a licence to implement a housing scheme after the local authority approves the layout of a building site and, subsequently, the building plans. Under normal circumstances, layout and planning approvals could take months. To the developers, such delays can result in financial burdens.

Furthermore, 10 out of the 18 interviewees stressed the importance of establishing rapport with their bankers, this is in addition to their relationships with local authorities,
because the bankers are responsible for granting loans and financing facilities used to fund their housing-development projects. According to one respondent, establishing good rapport with bankers requires the establishment of relationships with both upper and lower management levels of the banking structure. Bank managers and senior credit officers are often transferred to other branches after a few years due to banking regulations, but clerks and junior staffs would almost always stay at the same branch. Consequently, establishing good relations with people from all management levels not only facilitates the loan-application process, but also helps to acquire information regarding current promotional products, financing instruments, as well as new regulations imposed by the banks. One interviewee stated, “You must be on good terms with the banks; if a bank does not approve your loans, your company can go out of business.”

In conclusion, based on the findings listed above, Bumiputera housing developers need to consider a number of factors so as to ensure their long-term business survival. These factors, outlined in Figure 2, ultimately determine the performance of the Bumiputera housing developers firm.

![Figure 2. The determinants of Bumiputera firm performance in housing development industry in Malaysia](image)

**DISCUSSION**

Frequency, cross tabulation and correlation analysis have been used to determine the relationships between the demographic profiles and firm performance revealing that courses taken before starting a firm had a significant impact on firm performance. This finding was consistent with an earlier finding by Jaafar (2003). Based on the interviews, the sampled Bumiputera housing developers acknowledged the importance of attending courses and seminars before starting their firms, believing that the knowledge acquired from these educational endeavours has helped to ensure their firms smooth and successful operation. Most agreed that attending courses was important because it provided up-to-date knowledge and relevant local information which would otherwise not be made available in undergraduate or elementary level courses. This finding was supported by Salleh (2001), who stressed that courses and seminars were important tools to enhance the entrepreneur’s knowledge, expertise, and experience, thereby making them more competitive. Attending courses and seminars also provide opportunities for developers to expand and strengthen their business networks and to engage with other industry players (Cromie et al. 1993).

However, despite the seeming importance of having attended prior courses, education levels and work experience were found not to be significant determinants of firm performance. This finding contradicted those of earlier studies (Luk 1996; Ramachandran & Kedia-Shah 1999; Reuber & Fischer 1999). Nonetheless, respondents did indicate that in addition to work experience, developers must possess a technical knowledge of the industry. Furthermore, operating in an industry dominated by other ethnic groups creates additional challenges. Having the necessary skills and knowledge could provide them with the wherewithal to compete and prosper in such a challenging environment.

The correlation test carried out to determine the relationship between entrepreneurial characteristics and firm performance showed that only the “propensity to take risks” variable had a significantly negative relationship with firm performance. This finding is in contrast with the findings of Gurol and Atsan (2006), Hisrich and Peters (2002) and Stewart Jr. et al. (2003). Given that housing development is an inherently risky venture, developers would gravitate toward moderate, but reasonable, risks after weighing up all possibilities which are likely to arise as a result of their actions. Some developers conceded during the interviews that they were more prone to take
greater risks during their earlier years in the industry than they were at the time of the interviews. Usually, according to Brockhaus (1980), as entrepreneurs become more aware of their business environment, they realize the venture has a higher risk element than they originally perceived. One of the managing directors also admitted that his work experience as an architect helped him to understand and manage the business more successfully. Previous working experiences allow an entrepreneur to judge a situation more clearly, drawing upon lessons learned from the past (Gilmore et al. 2004), thereby minimizing risks.

While all interviewed respondents agreed that housing was an extremely profitable business, due to the promise of lucrative returns, they conceded that seeding a project required a substantial amount of money. Consequently, developers need to have readily accessible financial capital, apart from the loans provided by banks and finance companies, to ensure the smooth running of their daily operations. A developer requires a minimum of RM200,000 in cash as up-front capital to start a housing project, this needing to be paid to the MHLG in order to obtain the prerequisite developer’s license (Wan Mohd Dzulkifli 2009). Because a housing development plan is subject to approval from the local authority, bureaucratic red tape would often delay the construction process. One major challenge facing a developer is the risk of financial loss due to lengthy production times. Capital invested today can only be realistically recovered several years later, after individual housing units are sold. Thus, any delay in production time can have an adverse effect on anticipated profits.

Another challenge relates to selling housing units upon completion of a housing project. With the current “sell and build” practice, developers normally have to ensure that a project has met certain predefined milestones before any housing units can be put onto the market and sold. What emerged during the interviews is that developers often experience problems selling their housing stocks due to a project having an unsuitable location, poor quality construction, and unattractive designs. If a project cannot be sold according to its forecasted sales figures, a developer may require additional capital to construct further houses until project completion. Studies conducted by Abdul-Aziz and Ho (2006), Abdul-Aziz et al. (2006) and Ho (2006) reveal that location is the key indicator of a housing project’s competitiveness because an unsuitable location presents a high risk to sales and loan assurance (Cadman & Topping 1995). Even houses with unattractive designs would still be saleable if the location were ideal. Nevertheless, the sampled Bumiputera developers claimed that more often than not, strategic locations or sites in Malaysia were either very expensive or already in the possession of the various state governments.

The cross tabulation test carried out to determine the relationship between business strategy and firm performance revealed that only business strategy focusing on the geographical aspect had any significant relationship with firm performance. A number of possible explanations are offered for this finding. As mentioned earlier, the beuracracy of housing development is extremely complex and can involve a fairly lengthy waiting period. Although it is the responsibility of the MHLG to issue licenses for housing development projects, the guidelines and criteria for housing distribution, together with land acquisition, remain under the jurisdiction of the state governments. These guidelines vary from one state to another (Omar 2002). Consequently, developers intending to implement a housing project in other states have to start all over, from learning about the rules and regulation of the state’s housing development policies and processes, to gathering information on the state’s current market trends. Furthermore, developers burdened with the risks of restarting a business in a new location, where acceptance by the local community of housing designs and prices is uncertain. Indirectly, this will affect the stability and prosperity of the firm.

Another plausible explanation for this finding is that the housing industry is a localized industry. Housing projects rely on services of a network of local contractors and consultants. Developers that intend to expand their business into other states must establish local networks inclusive of local authorities, contractors and consultants. In establishing rapport with these local networks, the developer acquires an understanding of the local business environment (Lee & Tsang 2001) through the exchange of ideas, information and advice (Fuller-Love & Thomas 2004).

In reference to the abovementioned reasons, our finding that the majority of the sampled Bumiputera developers confined their operations to just the one state in Malaysia, is noteworthy. The developers were comfortable leaving business expansion into other states to their successors. A director for Kelantan explained it succinctly, “I want to leave behind a strong business legacy here to my children so that when they take over, they can expand the business elsewhere.”

In terms of personal networking with professional and non-professional agencies, there was near consensus among the sampled Bumiputera developers that establishing and maintaining good personal networks with both professional and non-professional agencies (especially local authorities, contractors, lawyers, material suppliers, acquaintances, consultants, family/relatives/close friends, and bankers) is a crucial factor in them accomplishing their business goals. This result corroborates previous studies (Greve & Salaff 2003; Jaafar & Abdul-Aziz 2005; O’Donnell et al. 2001; Park & Luo 2001; Taylor & Pandza, 2003). Our correlation test revealed that only personal networking with local authorities and bankers had a significant relationship with the success of a firm.

Federal and state authorities maintain ultimate control over various stages of a housing developments approval process (Chan 1997). Consequently, their role in the housing industry cannot be overstated given that so much depends on their ability to manage applications and approvals in a timely manner. However, the beuracratic
nightmare posed by government authorities in term of the length of time it takes for them to endorse a housing development project (Abdul-Aziz et al. 2006) has long been recognized in the literature. These problems further compound the many challenges already faced by developers when seeking land-use approvals (Agus 2002). There have been cases where the approval process has taken years, particularly where the developers did not regularly follow-up with local authorities (Ho 2006; Singh 1995; Usilappan 1994). Establishing a personal network with local authorities not only ensures a smoother development process, but also increased the likelihood that local authorities will be willing to provide information and assist in hastening the approval process. Developers not only lose money when the approval process becomes too drawn out (Friedman 1997; Lim 1997), but more importantly a lengthy approval process can lead to the failure of project (Goh 1997b).

Aside from local authorities, bankers also play an important role in determining the success or failure of a housing development firm as they are responsible for providing the bridging and conveyancing facilities needed by the developers. Entrepreneurs often face problems obtaining loans and other types of credit facilities from commercial banks and other financial institutions (Lee 1990). Therefore, establishing a good connections with those working in the financial institutions can result in less documentation, more favourable financial packages being offered, and quicker loan application and approval process (Abdul-Rashid et al. 2006).

CONCLUSIONS

The results of this study indicate that, as relative newcomers to the industry, Bumiputera housing developers need more industry exposure and knowledge about the industry’s rules and regulations before setting out on their own. The overabundance of industry rules and regulations has been highlighted as a significant impediment to Bumiputera involvement in the industry.

A longer return-on-investment period of normally 1 – 3 years for housing developers to recoup indicates the high risks associated. The propensity to take risks has been proven to influence the success or failure of a housing firm in Malaysia. Unnecessary risks, therefore, would not only lead to additional loss, but more importantly, could mean the demise of the business.

This study has highlighted the importance of location factors in the business strategies of Bumiputera housing developers. Bumiputera developers preferred to restrict their operations to a limited number of states, usually just the one. Having familiarized themselves with the state and local authorities’ rules and regulations, their local knowledge allowed them to address problems quickly and easily. Approval processes could also be shortened based on the Bumiputera housing developer’s knowledge of local processes; the resulting benefits contributing toward the success of the firm. Furthermore, by focusing their operations in such a limited geographical region, the Bumiputera developers managed to establish good networks with local authorities and banks, expediting approvals and loans on their behalf, which again contributed to the success of their firms.

This study contributes toward a poorly understood area of inquiry, there being few local or international studies concerning the strategic management approaches of housing developers. Undeniably, research into Bumiputera housing developers is still at an embryonic stage. In part, there being so few Bumiputera housing developers in Malaysia might explain why they have easily been overlooked from an academic perspective, leading to the serious lack of studies concerning their business practices. The growth and development of a Bumiputera housing development industry has not been a priority for research, unlike other industries such as retailing and construction, for which there are considerably more Bumiputeras involved in those industries.

The strong emphasis on networking is perhaps what sets these Bumiputera developers apart from other ethnic developers in Malaysia. The housing industry requires massive amounts of capital, with the process highly dependent on the involvement of a multitude of stakeholders such as state and federal government authorities, consultants, contractors, sub-contractors and suppliers. Maintaining strong networks with relevant agencies and funding bodies is an enormous asset in this industry, and it is the recognition of the importance of such networking practices among Bumiputera developers that makes this study stand out.

The domination of the housing sector by ethnic Chinese is evidenced by their thriving business empires which sometimes span two to three generations. Furthermore, after several successive generations of settlement in Malaysia, the commercial and business ties of many ethnic Chinese run deeply throughout a multitude of sectors in Malaysia, leading to highly profitable support networks. Lacking these intergenerational support networks, Bumiputera entrepreneurs are at a serious disadvantage in spite of whatever government assistance they might be offered.

POLICY RECOMMENDATIONS

Since Malaysia’s independence, very little attention has been afforded to the housing development sector. Most economic policies have been focused on the contracting, retail, and franchise sectors. Despite that nation having undergone three different economic development programmes, the 1970 – 1990 New Economic Policy (NEP), the 1991 – 2000 National Development Policy (NDP), the 2000 – 2010 National Vision Policy (NVP), there has never been a specific emphasis on Bumiputeras in the housing sector. From the interviews, many developers complained about the existing rules and regulations as being too restrictive and complex. A more flexible and
less complicated set of regulations will not only benefit all developers, Bumiputera or otherwise, but would indirectly stimulate the involvement of Bumiputera developers.

The housing industry is often the key driver for the construction sector. Since independence, the government has implemented many policies and initiatives to encourage the involvement of Bumiputeras in the construction sector. However, the demand for construction is shrinking and the industry could be stimulated if channelled into housing development. Micro-developers and many small-scaled contractors themselves started in the construction industry and eventually became licensed developers. With the experience, knowledge, and contacts gained through the construction industry, there are ample opportunities for small-scale operators to excel in the housing development sector.

Bumiputera entrepreneurs entering the housing development industry will enter into a business environment dominated by well established players and as an ethnic minority. Consequently, the Bumiputera entrepreneurs must be well prepared before embarking on any such ventures. Our research, having explored what works for existing Bumiputera housing developers, serves to highlight the prerequisites for any Bumiputera entrepreneurs wanting to enter the industry in the future. To this end, having underscored the importance of knowledge, we propose that government and non-government agencies organize courses and seminars in order to give potential developers a basic understanding of how to successfully establish and run a housing development firm. Such courses can prove to be invaluable, acting as platforms for Bumiputera industry players to network, exchange experiences, and share ideas. What is more, these courses provide a forum for developers to bring forward their problems for the attention of the relevant government agencies. These courses could also allow for a “mentor-mentee” programme to be established between existing developers and newcomers, ensuring that those about to enter the industry do so armed with sound advice and proper guidance.

The National Development Policy could be used to spur the development of a Bumiputera housing development industry as part of its economic development objectives. For example, incentives could be provided to Bumiputera developers to embark on small scale developments projects conjointly with the government, with land allocations provided by the government and the development capital and expertise provided by the housing developers. Whereas most new businesses are capital-intensive, new property development businesses are particularly capital-intensive. Giving new housing development entrepreneurs the option to start their businesses small would allow Bumiputera entrepreneurs to be nurtured. In relation to this, public organisations (e.g. local authorities, state economic development corporations, and government-link companies) should be made more amenable and accessible to Bumiputera housing developers in order to stimulate the industry. Collaborative ventures between The research also saw genuinely successful joint ventures between the Bumiputera and non-Bumiputera housing developers, albeit on a small scale. Bumiputera housing developers should explore the distinct possibility of engaging their non-Bumiputera counterparts for potential win-win partnerships.

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Determinants of Housing Developer's Performance: A Case Study of Bumiputera Firms


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