

THE THEORETICAL DEVELOPMENT OF OPACITY ENTREPRENEURSHIP  
IN MALAYSIA

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To my family, mentor and friends, with love.

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## ABSTRACT

Majority of entrepreneurship researchers are likely to adopt and agree to the idea of early mainstream theorists and conventional pretext entrepreneurship with a positive perspective confirmed by early orthodox theorists. However, there are some practical scenarios such as “opacity”, “underground economy”, or “informal sector”, which one needs to be aware of. In fact, one of the philosophies contributed by the research had been to investigate the ideological perspectives in the antagonistic point of view in entrepreneurship, as well as the antagonistic issues that arise. Antagonistic entrepreneurship is rarely revealed in the mainstream textbooks, but its existence is indeed wide spread in the reality. Besides, this issue is not openly discussed in textbooks due to inconvenient knowledge that might be deliberated and cause sedition against the government. Hence, this research offers contributions to the comprehension of opacity in entrepreneurship (off-the-books, gimmick and run afoul of law) in the Malaysian business conditions. Thus, a Grounded Theory Research was employed and seven entrepreneurs were interviewed, whereby the data retrieved were analyzed. As a result, the findings obtained from the research depicted that opacity in entrepreneurship had been indeed an effective strategy that has been usually involved in an opaque network in order to contend against unfavourable institutional aspect, which is detrimental to the business interest, and somehow, common in the contemporary sociocultural. Apart from that, by identifying the priorities in the opacity in entrepreneurships, Malaysia would be able to position itself in a favourable business environment, not only to foster the growth of local entrepreneurs, but also to bring in more foreign direct investments. Furthermore, the discovery of this unorthodox knowledge does not only create a new diversity in the field of entrepreneurship research, but also other fields that might benefit from the intelligence of the unorthodox aspect.

## ABSTRAK

Sebahagian besar penyelidik keusahawanan lebih cenderung untuk menerima dan bersetuju dengan pendapat ahli teori utama terdahulu dan alasan konvensional keusahawanan dengan perspektif positif yang disahkan oleh ahli teori ortodoks dahulu. Walau bagaimanapun, terdapat beberapa senario praktikal seperti “kesamaran”, “ekonomi dasar” atau “sektor tidak rasmi” yang perlu disedari. Malah, salah satu falsafah yang telah disumbangkan oleh penyelidikan adalah untuk menyiasat perspektif ideologi dalam pandangan antagonistik dalam keusahawanan, serta isu antagonistik yang timbul. Keusahawanan antagonistik jarang diketengahkan dalam buku teks utama, tetapi hakikatnya ia wujud secara meluas. Isu ini tidak dibincangkan secara terbuka di dalam buku teks kerana ia mungkin menjurus kepada pertimbangan pengetahuan yang tidak sesuai dan menyebabkan hasutan terhadap kerajaan. Oleh itu, kajian ini menyumbang kepada pemahaman tentang kesamaran dalam keusahawanan (di-luar-buku, gimik, dan bertentangan dengan undang-undang). Dengan itu, Penyelidikan Teori Asas telah digunakan dan tujuh usahawan telah ditemu duga, dan seterusnya maklumat yang diperolehi telah dianalisis. Hasilnya, penemuan yang diperolehi dari kajian ini menunjukkan kesamaran dalam keusahawanan sebenarnya merupakan strategi yang berkesan yang biasanya terlibat dalam rangkaian yang kabur dalam menghadapi aspek institusi yang tidak menggalakkan, boleh memudaratkan kepentingan perniagaan dan lumrah dalam sosiobudaya kontemporari. Selain itu, dengan mengenal pasti keutamaan dalam kesamaran dalam keusahawanan, Malaysia akan dapat meletakkan dirinya dalam persekitaran perniagaan yang memberangsangkan, bukan sahaja untuk meningkatkan keusahawanan tempatan tetapi juga untuk menarik lebih banyak pelaburan asing langsung. Tambahan pula, penemuan pengetahuan bukan ortodoks bukan sahaja mewujudkan kepelbagaian baharu dalam bidang kajian keusahawanan, tetapi bidang lain juga mungkin mendapat manfaat dari aspek kecerdasan bukan ortodoks.

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## LIST OF ABBREVIATIONS

%	-	Percentage
HDI	-	Human Development Index
FDI	-	Foreign Direct Investment
KPPA	-	Ministry for the Co-ordination of Public Corporations
KPA	-	Ministry of Public Enterprise
MeCD	-	Ministry of Entrepreneur and Co-operative Development
INSKEN	-	National Institute of Entrepreneurship
MITI	-	Ministry of International Trade and Industry
TERAJU	-	Unit Peneraju Agenda Bumiputra
PUM	-	Young Entrepreneur Program
PKS	-	Undergraduates Entrepreneurship Program
1MET	-	1Malaysia Entrepreneur
MaGIC	-	Malaysian Global Innovation and Creativity Centre
OECD	-	Organisation for Economic Co-operation and Development
GEM	-	Global Entrepreneurship Monitor
IRBM	-	The Inland Revenue Board of Malaysia
SME	-	Small Medium Enterprise
EEB	-	Entrepreneurial Economic Behavior
EAO	-	Entrepreneurial attitudinal Orientation
GNP	-	Gross National Product
ILO	-	International Labour Office

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# **CHAPTER I**

## **INTRODUCTION**

### **Introduction**

This chapter provides a brief introduction to the research. It begins with the research background, as well as the research focus, and defines the problem statement. Then, the research objectives are stated, as well as the research questions, followed by the significance of the study, scope, and limitations of the research, as well as other introduction settings.

### **1.1 Research Background**

#### **1.1.1 Entrepreneurship**

Entrepreneurship has been a widely discussed subject for scholars from disciplines of business, management, economics, sociology, and in the academic field. Since the past two decades, the academic discipline of entrepreneurship has grown dramatically worldwide (Gray, 2006). When the entrepreneurship classes were first introduced in business schools two decades ago, a fierce debate erupted over the outcomes and teachability of the discipline. Nevertheless, Charney, Libec, and Center (2000) have revealed that the entrepreneurship education does bring important returns to graduates and to the society as entrepreneurship students have

several prominent features over non-entrepreneurship students in higher average annual income, higher propensity of owning business or self-employment, and better success in accumulating assets.

Besides, as the national economy crucially relies on entrepreneurship, thus entrepreneurial activity is globally omnipresent everywhere from developing countries to developed nations, such as the United States, China, Japan, etc. While the entrepreneurship scope ranges from the lowest few meters square of stores to the highest Fortune 500 companies, it all requires unique and innovative prosecution to elevate the industries. The diversification of entrepreneurship business includes everything from as small as a small microchip to huge automobile; an actual market to virtual market; men to women; young to the aged; and many other diversifications. Furthermore, many agree that the field of entrepreneurship positively influences a country's economy growth (Edwards, 2000; Hisrich, Peters and Shepherd, 2005; Venesaar and Loomets, 2006). In fact, the entrepreneurship development results in revolutionary changes in high technology industries and intangible interest, such as employment opportunities and expertise knowledge spillages (Terjesen, Planck and Acs, 2007). Moreover, some researchers say, companies, particularly "Multinational Corporations", rule the world (Korten, 2011).

Apart from that, the entrepreneurship field has drawn significant attention; not only as research topics or class subject in the education sector, but also as one of the most discussed subjects in today's political sector. In the perspective of the nation government and political worldwide, entrepreneurs are the main force who raise the revolutionary changes in high technology industries, and reorganize the manufacturing, finance, trading, and other sectors (Edwards, 2000). Thence, the triumph of entrepreneurship has been treated as one of the critical success factors for the nation's economy. A summary pertaining to entrepreneurship contribution is depicted in Table 1.1.

**Table 1.1:** Entrepreneurship contribution from literature review

<b>Author</b>	<b>Theme</b>	<b>Specific Contribution</b>
Charney, Libeca and Center (2000)	Entrepreneurship Education	Entrepreneurship education increases the propensity of graduates to be self-employed, higher average annual income over non-entrepreneurship students, contributes to the growth of firms (especially small firms), transfer of technology from the university to the private sector, and promotes technology-based firms and products.
Edwards (2000)	Economic Growth	Radical innovators, growing small niches into big industries, generating completion, acting as the Economy's Guinea Pigs, and turning inventions into innovations.
Mamede and Davidsson (2004)	New entrepreneur	Wealth generation, as well as remodeling and destabilizing wealth distribution.
Hayton (2005)	Corporate entrepreneurship	Entrepreneurial nature is an added value to the collaboration, creativity, and individual commitment.
Fairlie (2008)	Immigrant entrepreneur	Contributed large share of business ownership, formation, and business income.

Praag and Versloot (2008)	Economic benefit	Higher but volatile employment generation; innovation but through different aspects; and growth of value added and productivity.
Wennberg and Lindqvist (2008)	Clustered entrepreneur	Higher job creation, higher tax payments, and higher salary payments.
Balunywa and Rosa (2009)	Portfolio entrepreneurs	Evident contribution in source of taxation, employment, creation of new firms, new industries, infrastructure development, and multiplier effects.
Wei (2009)	Regional Economic Development	The entrepreneurship contribution mainly reflected in employment, technology advances, industrialization, foreign trade, and tax.

Source: Compiled by author

### 1.1.2 Entrepreneurship Development in Malaysia

Since the formation of Malaysia in 1963, the Malaysian economy has experienced a structural transformation from being a nation of raw materials producer to an emerging multi-sector economy (Isa, 2007). Apart from decades of government's efforts and initiatives in economy transformation, the contributions from entrepreneurs are the most established evidence for the significant economy growth, innovation, employment opportunities, and expertise knowledge spillages (Harris and Moffat, 2011).

Besides, in order to foster entrepreneurship, the government established the very first Ministry for the Co-ordination of Public Corporations (KPPA) in 1974, which was responsible for entrepreneur development programs. In 1976, KPPA was transformed and named Ministry of Public Enterprise (KPA), and later, was known as Ministry of Entrepreneur and Co-operative Development (MeCD) in 2004. In January 2005, the National Institute of Entrepreneurship (INSKEN) was established in support of the MeCD implementation strategy to create Bumiputera Commerce and Industrial Community. However, on 22<sup>nd</sup> May 2006, the Malaysian Prime Minister, Yang Amat Berhormat Dato' Sri Najib bin Tun Abdul Razak, officially launched the Ministry of International Trade and Industry (MITI). In 2009, the MeCD was dismissed, and INSKEN was replaced by MITI. As for the latest update in 2014, INSKEN has been removed from MITI, and now it is listed in *Unit Peneraju Agenda Bumiputra (TERAJU)*.

Hence, this ministry has undergone several reconstitution in align with the Prime Minister's leadership and revolution needs. However, some programs are still active and serve to groom entrepreneurs. For instance, Young Entrepreneur Program (PUM) and Undergraduates Entrepreneurship Program (PKS) have been introduced in 1989, and were established under KPA, which are now under the purview of MITI.

Nevertheless, MITI is not the sole Ministry responsible for the grooming of entrepreneurs. At a Global Entrepreneurship Summit (11st October 2013), YAB Prime Minister officially launched 1Malaysia Entrepreneur (1MET), initiated by the Ministry of Finance and announced Malaysian Global Innovation and Creativity Centre (MaGIC) as the one stop center to empower entrepreneurs. According to Malaymail online (October 26, 2013), the Malaysian government has allocated RM 50 million to establish MaGIC, which ultimately aims to revolutionize Malaysia as "an Entrepreneurial Nation."

Meanwhile, the Global Entrepreneurship Monitor (GEM) is an annual global study that analyzes the level of entrepreneurship from a wide basket of countries (Amorós and Bosma, 2013). In 2013, GEM reported that Malaysia has been in the transition phase between efficiency-driven economies and innovation-driven

economies (for definition see appendix A). Table 1.2 shows South East Asia GEM economies and economic development level.

**Table 1.2:** South East Asia GEM economies and economic development level

Factor-Driven Economies		Efficiency-Driven Economies		Innovation-driven Economies
Vietnam	Philippines	Indonesia and Thailand	Malaysia	Singapore

Source: Amorós and Bosma (2013)

Even though the Malaysian economic development level has been marked higher than those of Indonesia, Thailand, Philippines, and Vietnam, some key indicators in GEM convey opposing results. Table 1.3 depicts the GEM in Malaysia, Singapore, Philippines, Indonesia, Vietnam, and Thailand.

**Table 1.3:** Global Entrepreneurship Monitor (GEM) in Malaysia (MYS), Singapore (SGP), Philippines (PHL), Indonesia (IDN), Vietnam (VNM), and Thailand (THA)

Key Indicator	MY	SGP	PHL	IDN	VNM	THA
Established Business Ownership rate	6	4.2	6.6	21.2	16.4	28
Total early-stage Entrepreneurial Activity (TEA)	6.6	10.7	18.5	25.5	15.4	17.7
Entrepreneurial Intention	11.8	15.1	44.1	35.1	24.1	18.5
Nascent Entrepreneurship Rate	1.5	6.4	12	5.7	4	7.9
Fear of Failure Rate	33	40	36	35	57	49

Source: Amorós and Bosma (2013)

In comparing with other neighboring nations, Malaysia had been evaluated with less entrepreneurship activities as the established business ownership rate, total early-stage entrepreneurial activities, entrepreneurial intentions, and nascent entrepreneurship rate had been low compared to Singapore, Philippines, Indonesia, Vietnam, and Thailand. This raises a concern if the government's entrepreneurship policy really helps in grooming entrepreneurs. Table 1.4 shows the significant factors that contribute and limit entrepreneurship in Malaysia.

**Table 1.4:** Significant factors that contribute and limit entrepreneurship in Malaysia

<b>Contributing factor</b>	<b>Mean</b>
Physical infrastructures and services access	4.01
Degree of motivation and valuation of entrepreneurs, as well as its role	3.85
Opportunities existence perception	3.62
Valuation of innovation from the consumers' point of view	3.60
<b>Limiting factor</b>	
<b>Limiting factor</b>	<b>Mean</b>
Entrepreneurial level of education at Primary and Secondary levels	2.31
Government policies bureaucracy and taxes	2.48
Internal market burdens	2.75
R&D level of transference	2.77

Source: Roland, Noorseh, Leilanie, and Mohar (2010)

Even though government intervention, such as providing incentives and infrastructure to promote and support entrepreneurship development, has helped; the rules, bureaucracy, and procedural requirements by the government have been barriers for the entrepreneurs' first start because these obligations seem to consume more time and money (Yusof, 2011). Hence, in coping with this intervention, off-the-books, gimmick, and a foul of law have been the most likely strategies employed to eliminate the unwanted obstacles.

Besides, entrepreneurship is important for many reasons. Productive entrepreneurship leads to economy growth, technology innovation, and employment opportunities. However, some entrepreneurs are engaged in activities that are non-compliant to taxation and regulation, which lead to a reduction in tax collections, and this affects the public services received by the public citizens (Sia, 2008), excessive migrant laborers that results in higher poverty levels due to the rising local unemployment rate, and lower wages to compete with the low-paid laborers (Abubakar, 2002).

### **1.1.3 Opacity in Entrepreneurship**

In entrepreneurship literature, entrepreneurship occupies significant interests in business, management, economics, sociology, and other disciplines. Famous entrepreneurship scientists and economists, such as Cantillon, Schumpeter, Say, Hebert, and other rising scholars, have devoted their efforts in exploring entrepreneurship from the very first history etymology to the role of entrepreneurship and even an un-unified definition of entrepreneurship. In addition, entrepreneurship studies conventionally wrap the entrepreneurship with constructive, innovative, and virtuous attributes. However, entrepreneurship is not the sole hallmark confined only to the upper class and formal entrepreneurs, as entrepreneurship also exists for the underclass and informal entrepreneurs (Smith and Christou, 2008; Williams and Nadin, 2011). In contrary to the theory of entrepreneurship, the word “conscientious” in describing entrepreneurship is seen as untenable.

In 1990, William Baumol’s theory of productive, unproductive, and destructive entrepreneurship called the attention in the entrepreneurship literature. Based on the theory, entrepreneurial productivity is determined by the direction of entrepreneurial effort, as entrepreneurs and enterprises can choose to devote their effort towards wealth securing redistribution through political and legal processes (productive) or towards their private wealth generation (unproductive). Moreover, the entrepreneurial direction is affected by the corresponding rates of benefits (e.g. wealth, power, and prestige) and the quality of the present political and institutions

(Johnson, Kaufman and Zoido-Lobato, 1998; Marinov, 2008; Sobel, 2008; Schneider, 2009; Dell'Anno, 2009; Torgler, Schneider and Schaltegger, 2009).

*“It is often assumed that an economy of private enterprise has an automatic bias towards innovation, but this is not so. It has a bias only towards profit. It will revolutionize manufactures only if greater profits are to be made in this way than otherwise.” (Hobsbawm, 1968 p.40)*

Furthermore, entrepreneurs and enterprises are likely to engage in productive activities that create wealth (profit) and unlikely to lessen their wealth by devoting part of their profit through taxation and political institutions (Palan, Murphy and Chavagneux, 2010). Besides, entrepreneurial individuals and enterprises are only biased towards profits and devote their effort to generate greater benefit in terms of wealth, power, and prestige (Baumol, 1990). Thus, conflicting perspectives between productive and unproductive do exist between entrepreneurs and institutions. Entrepreneurial individuals perceive productive as creating wealth for themselves, while the institutions perceive productive as taxation, employment, innovation, and other productivities that are devoted to the institution (Mamede and Davidsson, 2004; Balunywa and Rosa, 2009). Meanwhile, in the perspective of business, tax is the least productive production cost (Palan, Murphy and Chavagneux, 2010). On the other hand, unproductive refers to activities or transactions that are not reported to the political institution, either legitimate (e.g. tuition), or illegal (prostitution), as political institution cannot impose taxation on the transactions (Kik, 2012).

As the unproductive economic activities are not covered in formal statistical records in national accounts, they have been given titles, such as the ‘underground economy’, ‘informal sector’, and appellations, as used by scholars for these elusive social economy activities (Blades and Roberts, 2002; OECD, 2002). In this research, opacity had been adopted to represent the entrepreneurial activities that are productive and legal, but not reported or concealed from observation of states, being taxed or for other beneficial purposes (Williams, 2009). The opacity works can be simply defined as works that are non-compliant to taxation (off-the-books) and

regulation (run afoul of law). Table 1.5 shows definition of Formal Entrepreneurship, Opacity in Entrepreneurship, and Informal Entrepreneurship.

**Table 1.5:** Definition of formal entrepreneurship, opacity in entrepreneurship, and informal entrepreneurship

<b>Entrepreneurship</b>	<b>Definition</b>
<b>Formal entrepreneurship</b>	Entrepreneurship that is involved in the formal economic activities that positively influences a country's economy growth (Baumol, 1990).
<b>Opacity in Entrepreneurship</b>	Entrepreneurship that is involved in activities that is productive and legal, but deliberately concealed from the public authorities to avoid payment of taxes or to comply with regulations (OECD, 2002; Williams, 2009; Palan, Murphy and Chavagneux, 2010).
<b>Informal Entrepreneurship</b>	Entrepreneurship involved in illegal activities, such as illegal drugs dealing, black market of currency exchange, money laundering, unlicensed money lending, illegal gambling, prostitution, and pornography (Baumol, 1990).

Source: Compiled by author

Opacity is not only an area of concern for local government institutions and tax authorities; but the issue has brought international concern as opacity brings more financial loss in the global formal economy compared to the financial loss in criminal and corruption. Table 1.6 shows an estimated underground money circulation by three categories annually.

**Table 1.6:** Estimated global underground money circulation by three categories (in billion per year)

<b>Categories</b>	<b>Lowest estimation</b>	<b>Highest Estimation</b>
<b>Criminal</b>	331	549
<b>Corruption</b>	30	50
<b>Business :</b>	700	1,000
<b>Unreasonable Pricing</b>	200	250
<b>Misuse Transfer Pricing</b>	300	500
<b>Fake Trading</b>	200	250
<b>Total</b>	1061	1699

Source: Baker (2005), and Palan, Murphy and Chavagneux (2010)

Besides, opacity works are largely attached to activities that are non-compliant to taxation and regulation. At present, opacity cahoots have continued to develop in more complex ways and are involved in a wide range of professionals, such as accounting and financial to cook their book, rogue lawyer to fix “commercial cases”, and tax haven that facilitates in taxes avoidance activities. According to OECD (1998), there are three parties involved in tax avoidance scenarios, which are tax payers, taxpayer’s origin jurisdictions, and tax haven. The obligation of a tax payer is to pay tax to the origin jurisdictions, while tax haven helps the tax payers to avoid the taxes that they are obliged to pay in the origin jurisdiction by imposing lower tax rates or zero tax. As a result, the tax payers do comply with their obligation, but not to the origin jurisdiction. The consequence is tax spillover effects on the origin jurisdictions.

In Malaysia, more than 50 percent of the federal government revenue comes from direct tax (see Appendix B) and direct tax is seen as a great profitable income for the federal government (IRBM, 2009). This is acknowledged in Baumol’s theory of productive, unproductive, and destructive entrepreneurs. Entrepreneurial individuals and enterprises can choose to devote part of their efforts to taxation and political institutions. Table 1.7 portrays the comparison between registered enterprises and total registered taxpayers under the category of enterprise.

**Table 1.7:** Comparison between registered enterprise/business and enterprise taxation

<b>Years</b>	<b>Total registered (Companies)*</b>	<b>Total registered taxpayers under the Enterprise category**</b>	<b>Tax collected under the Enterprise category (RM Million)**</b>
<b>2005</b>	717,953	-	28,058.00
<b>2006</b>	756,245	-	30,513.00
<b>2007</b>	799,582	-	37,574.55
<b>2008</b>	841,205	-	46,902.04
<b>2009</b>	882,843	451,488	40,265.16
<b>2010</b>	927,045	455,764	43,797.13
<b>2011</b>	972,500	476,654	55,080.00

\*Companies Commission of Malaysia annual report (2005-2011)

\*\*IRB Annual Reports from 2003 to 2009

The statistical data obtained from Companies Commission of Malaysia and IRB in 2009 and 2010 showed serious discrepancies in the total registered enterprises and the total registered taxpayers under the category of enterprise. These discrepancy areas are unproductive as the tax authorities could not imposed taxation on them. Nonetheless, the discrepancy areas only occupy a portion from the huge unrecorded economy in Malaysia, either formal or informal sectors. According to Fahmi (2009), the Deputy Finance Minister of Malaysia stated that approximately 1 million out of 2 million tax chargeable are not paying tax, while 400,000 out of 500,000 firms registered are not tax-compliant. Comparing between these 50 percent of the individuals and 4/5 firms' non-compliance with firms and individual tax contributions (individual RM 17.80 billion and firms RM 43.80 billion) in 2010, the Malaysian government might have lost about RM 236.8 billion.

Enterprise is a type of business organization in Malaysia, whereby the formation is bound by the registration of Business Act. There is no legal status for an enterprise as it is a one-man show business where the owner and the business are considered as one entity. After all fund, effort, and hard work are devoted to the business, in return, the owner would be entitled for all the net profit generated from the business as a reward. One thing to bear in mind is that the enterprise is not liable to pay tax, as all income is taxed personally to the owner.

Meanwhile, in business company, the shareholders and the company are two different entities. It can be considered as an artificial human being and it may also act as a natural human being for buying and selling properties in the name of the company, signing contracts, as well as being sued, except for being a director at any time. That means the company would also be liable for all the debts and it would not affect the shareholders at all. In the case of the company to be wound up, the owner has no obligation to contribute his personal assets to settle the company's debt (including tax).

## **1.2 Problem Statement**

Most researchers have popularized and envisioned the characteristics of entrepreneurs to be virtuous, decent, and wholesome. In short, entrepreneur is a portrayal of any positive characteristics, economic savoir, and even an aspiring career (Williams and Round, 2009). These are the typical features that most learn about entrepreneurship, such as the major definition (Table 2.1 and Appendix E), the contributions of entrepreneurship (Table 1.1), and other wholesome theories pertaining to entrepreneurship. Hence, the books can only identify the underlying theories concerning entrepreneurship.

However, the theoretical definition should not only establish positive perspectives, as there are some practical scenarios, such as “off-the-book”, “underground economy”, or “informal sector” in entrepreneurship that one needs

to be conscious of (Williams, 2009). Besides, most entrepreneurial studies have concentrated on the orthodox knowledge, and very less in the unorthodox aspect. Nevertheless, everything has two sides; a positive and a negative, and the same goes for entrepreneurship characteristics, personalities, innovations, and others entrepreneurial qualities. Entrepreneurship is not the sole hallmark confined only to the upper class and formal entrepreneurs, but entrepreneurship also exists for the underclass and informal entrepreneurs (Smith and Christou, 2008; Williams and Nadin, 2011). Thus, Baumol (1990) categorized entrepreneurship into productive, unproductive, and destructive. In fact, the roles of entrepreneurship and social economy are thick and complex. The theories and the principles of entrepreneurship that are delivered through books and academics only discuss the ostensible mechanism of the entrepreneurship. These entrepreneurship mechanisms are mainly legal or expected by the society or appear to be true, but not necessarily so. The actual entrepreneurship mechanism may contradict to what is asserted openly by the society or displayed in books and academic.

Besides, entrepreneurship researches are concerned about the polarities of psychologism and sociologism in social science researches. According to Goulding (1999), “psychologism is a view predicated on the assumption that social behavior is explicable in genetic terms and by logical or neurological processes,” while “sociologism is the opposed fallacy, which looks at personal conduct as if it had been in some way programmed by societal norms”. In fact, a majority of entrepreneurship scholars support psychologism and many entrepreneurship researches are connotations of positivist practices, highly based on researchers’ interpretations and experiences. This might omit or limit the subjective experience of the participants (entrepreneurs). Moreover, some researchers’ interpretations might not be comprehensive and overpass certain aspects in entrepreneurship. Some might propagandize the field of entrepreneurship and look at the things from the point of view of one’s own profession rather than from a broader perspective because of ‘professional deformation’ or ‘job conditioning’. Thus, the implication often results in a distortion, in the way one views entrepreneurship. However, like most researches, this research did propagandize the term of opacity in entrepreneurship. Researchers do believe that there is a conditioning, whereby the entrepreneurship would gradually

and tactfully change its practices or culture in entrepreneurship mechanism to their advantage. Nonetheless, this conditioning does not involve explicit agreement with the government to change the condition of the entrepreneurship. It is more like creating ‘facts on the ground’ that makes entrepreneurship look better.

Other than that, no matter how completed or highly recognized entrepreneurship researches are, the interpretation of the analyzed perspective is seen as superficial and marginalized towards some non-mainstream ideas. According to Larossa (2005), social sciences students are being instilled to confirm the ideas of early mainstream theorists and have adopted one-sidedness. This results in interruption in the flow of ideas, as well as failure to appreciate the complexity and the diversity of social life.

*“Many potentially creative students have limited themselves to puzzling out small problems bequeathed to them in big theories. . . . [But] the masters have not provided enough theories to cover all the areas of social life. . . . Furthermore, some theories of our predecessors, because of their lack of grounding in data, do not fit, or do not work, or are not sufficiently understandable to be used and are therefore, useless in research, theoretical advance, and practical application.”*

(Glaser and Strauss, 1967)

Although many hold positive perspectives on entrepreneurship, they are not all in the business field. Business holds two different perspectives towards entrepreneurs: one is viewed as threat because an entrepreneur gives rise to aggressive competitions; whereas some may take an entrepreneur as an ally, a source of supply, a customer, a person who generates wealth, one who introduces ideal ways to utilize resources, and reduce waste, as well as offers employment opportunities that benefit the majority (Hisrich, Peters and Shepherd, 2005).

In addition, the formal entrepreneurship reported in national accounts is only perhaps the iceberg tip of the total entrepreneurship. However, the off-the-books

entrepreneurship that is concealed from the authorities' observation is perhaps the most concerned issue in many societies (William, Round and Rodgers, 2010). Global Financial Integrity reported Malaysia as the fifth largest country for cumulative of illicit outflows during 2000-2008 (Kar and Curcio, 2011) (See appendix C). Meanwhile, the World Bank (2011) reported that many Malaysian public and private sectors procurement involved fraud and corruption, which had cost Malaysia RM 10 billion loss, equivalent to 1-2 percent of Malaysian Gross National Product (GDP) (Chang and Loo, 2011). By comparing the estimated data from the Global Financial Integrity and the World Bank, Malaysian illicit financial outflows had been ranked second in proportion by population and ranked first in percentage by GDP. Table 1.8 shows the Nations with high measures of illicit financial outflows estimates, 2001-2010 (millions of US dollars).

**Table 1.8:** Nations with the highest measured illicit financial outflows estimates, 2002-2011(millions of US dollars)

Rank	Country	Illicit Financial outflows (IFF)	Proportion by population (IFF/Population)		Percentage by GDP (IFF/GDP)	
			Ratio	Rank	%	Rank
1	China	107,557	80.02	8	1.47	9
2	Russian Federation	88,096	616.23	3	4.64	3
3	Mexico	46,186	386.94	5	3.98	4
4	Malaysia	37,038	1287.88	1	12.80	1
5	India	34,393	28.16	10	1.83	8
6	Saudi Arabia	26,643	959.70	2	3.98	5
7	Brazil	19,269	97.84	6	0.77	10
8	Indonesia	18,183	74.58	9	2.15	7
9	Iraq	15,756	496.10	4	8.24	2
10	Nigeria	14,227	86.65	7	3.44	6
<b>Global Financial Integrity</b>			<b>Comparison with Data from World Bank</b>			

Source: Compiled by author from Global Financial Integrity (2012) and World Bank (2011)

On top of that, the estimated global underground money circulation indicated that the underground money amount circulation in the business had been far greater than the sum amount of criminal and corruption. However, many countries and public policies focus on coping criminal and corruption; consciously or unconsciously overlooking the business categories or even turning a blind eye on the business categories. This has been proven by Webb et al., (2009), who claimed that off-the-books have been “socially accepted and are legitimate”. Some countries, states or territories even offer jurisdictions that facilitate taxes avoidance activities, and other off-the-books enterprises and individuals from other jurisdictions avoid taxes or they would otherwise be obliged to pay in their origin jurisdictions

(Littlewood, 2005) (see Appendix D). In this case, the origin jurisdictions will confront with the revenue lost from the off-the-books activities. Table 1.9 portrays the estimation of illegal money flow in Malaysia in US\$ million based on categories.

**Table 1.9 :** Estimation of illegal money flow in Malaysia in US\$ Million

<b>Categories</b>	<b>Percentage %*</b>	<b>Illegal Money** (in million U.S. dollars)</b>	<b>GDP ratio % (Illegal money /GDP)</b>
<b>Criminal</b>	33	12,222.54	4.23
<b>Corruption</b>	3	1,111.14	0.38
<b>Business Shady Practices</b>	64	23,704.32	8.19
<b>Total</b>	100	28,524	12.8

Source: \*Baker (2005), and Palan, Murphy and Chavagneux (2010)

\*\*Global Financial Integrity

Even though “opacity” is likely to be acknowledged negatively, many believe opacity is an actual and practical business acumen, an extraordinary trend of creative and innovation because opacity is likely to be adopted in removing unwanted business obstacles, and it can be a transitional method for surviving or transformation from informal into formal bases, and most favoring is the effectiveness outcomes (Williams, 2006).

Besides, entrepreneurship is also well-known for its difficult and tricky ventures, whereby a raise of a new enterprise might indicate a failing of another (Okaro and Ohagwu, 2010). In order to survive or succeed in a competition with either a new enterprise or a gigantic venture, some enterprises might choose to get involved in informal economic activities and off-the-books works or at least the off-the-books ideas that come into their minds (Welter and Smallbone, 2011). Once the entrepreneurs are engaged in off-the-books, either partially or wholly, it is difficult to pull back and many will continue even after the enterprise has grown firm.

In common perspective (in general understanding), opacity is a destructive issue, while the non-compliance taxation and regulation threaten the national economy, as well as raise some social issues, such as corruption, poverty, unemployment, and many other popular indignation reported in the media (Abubakar, 2002; Sia, 2008). From the literatures of opacity and similar appellations, a collaborative matter appeals to judge that “the most critical problem” is not the opacity itself, but pointing towards the government for the unfavorable interference in the market economy, such as taxation and regulation (Wiegand, 1992; Schneider, 2006; Startienė and Trimonis, 2010; Friedma, Johnson, Kaufman and Zoido-Lobato, 2000).

Indeed, opacity is a destructive issue, and the causes of opacity is rather concerning. From empirical sources of literature and existing research findings, the most popular causes for opacity in entrepreneurship are the government, regulation, taxation, economy, and social ethos (Sim, Huam and Amran, 2011). However, the inclusive or the exclusive causes and dichotomic situation vary according to different study perspectives. Thus, this research looked into the interaction between opacity condition in entrepreneurship and other interaction parties that could offer different perspectives in entrepreneurship studies.

### **1.3 Objectives of the study**

The thesis developed a grounded theory regarding the opacity of entrepreneurship, as well as the exploration of internal and external factors that influenced opacity in entrepreneurship. Therefore, four related objectives were addressed, as depicted in the following:

- I. To develop a theory to explain the features of opacity in entrepreneurship based on the individual entrepreneur and the elements of incident.
- II. To explore the causes and the intervening factors that influenced opacity in entrepreneurship.
- III. To identify the important opaque features in the context of an entrepreneur's life experience.
- IV. To identify the opacity activities among entrepreneurs in Malaysia.

## **1.4 Research Questions**

The following research questions comprise of the core of the investigation. In order to construct research question I, the incident factor (research question II), important features (research question III), and the activities (Research question IV) had to be identified first to form a model to explain the opacity in entrepreneurship as a whole.

- I. What is the opacity model in entrepreneurship based on the individual entrepreneur and the elements of incident?
- II. What are the causes and the intervening factors that influence the opacity in entrepreneurship?
- III. How does an entrepreneur perceive opacity in entrepreneurship works in the context of an entrepreneur's life experience?
- IV. What are the opacity activities in entrepreneurship in Malaysia?

## **1.5 Significance of the study**

The significance of the study is viewed in practical and theoretical contributions. Practically, this study identified a grey gap between the formal and the informal entrepreneurs; the correlation between the opacity in entrepreneurship and the entrepreneurial environment. Meanwhile, the theoretical contribution is to subjoin some unorthodox knowledge into the current education and academic field, especially in the perspective of entrepreneurial. Furthermore, entrepreneurship is one of the popular and orthodox worships in research fields; however, the unorthodox side of the entrepreneurship seems to be extremely rare in the education field.

There are a few reasons that cause entrepreneurship to theorize in an orthodox nature and scarce consideration is given to the possibility that unorthodox entrepreneurship does exist. In fact, a majority of researchers have been instilled to confirm the ideas of early mainstream theorists and have taken only one-side (Larossa, 2005). As the orthodox supporters concentrate only on the virtuous side of entrepreneurship, the results are valid in the virtuous side and not on the unorthodox aspect. Thus, the unorthodox side of entrepreneurship is one of the blue ocean research fields that have to be explored.

On the other hand, another factor is the sampling factor. The majority entrepreneurship researches have chosen entrepreneurs as sample population. The concern is not how sample is selected but how they react to the questions. In sciences experiment, the sample studied is observed closely by someone. However, in social sciences, human subjects are most likely to change their normal behavior when they consciously notice someone is closely observing them. For example, an employer watches his employee to make sure that the employee performs harder than the normal working hours. With this situation, similar to entrepreneur, only “good” is shown, while “bad” is hidden.

### **1.5.1 Practical Contributions**

There are several critical characteristics in this research. First of all, this research provides an in-depth understanding in the opacity in entrepreneurship in Malaysian business environments so that the parties responsible in entrepreneurs’ development can take reference to develop business environments that favor entrepreneur growth. Entrepreneurs are the economic agents who contribute to the raise of revolutionary changes in high technology industries, nation economy growth, employment opportunities, and expertise knowledge spillages (Terjesen, Planck and Acs, 2007). Therefore, entrepreneurial behavior and phenomenal have been treated as important elements in the nation economy trend, so does opacity in entrepreneurship due to the estimated loss of USD 18255.36 million. Apart from that,

this research alerts the government to take opacity in entrepreneurial behavior as a reflector for the nation's economy environment and the activities organized by the government. Some government culture, policies, and moves disproportionately hurt Small and Medium Enterprises (SMEs) because most SMEs are unable to respond as effectively and swiftly in compliance with government. Besides, the Malaysian government has put in more effort to contribute to the entrepreneurship in Malaysia and to revolutionize Malaysia as "an Entrepreneurial Nation". Whether the entrepreneurial activities are in the phase of factor-driven, efficiency-driven, or innovation-driven economies, the end result would continue to contribute in employment rates, economy changes, technology innovation, and national income. However, the government policies, bureaucracy, and taxes do not only limit the growth of entrepreneurship (Roland, Noorseh, Leilanie, and Mohar, 2010), but also create a pushing factor for money outflow (Littlewood, 2005; Dharmapala and Hines, 2009). Plus, many businesses believe that malpractice is a major problem in their organizations and it is an inevitable cost for running a business in Malaysia (KPMG, 2013). Hence, this makes opacity an alternative to minimize the burden of taxation and regulation.

Generally, opacity is related to legal issue. Thus, legal actions are mostly adopted to encounter opacity practice. However, evidence shows that the regulation will not stop opacity and illegal money outflow from any nation (Johnson, Kaufmann and Shleifer, 1997; Schneider, 2006; Enste, 2009; Startiene and Trimonis, 2010). This will foster more brilliant ways for malpractices, frauds, corruptions, and briberies, thus, encourage more illegal money outflow. This causes the government to lose tax revenue and transfer the cost to the end consumers, as well as burden the social. The end result will continuously trigger more crimes, and unsatisfactory from the society. Hence, it is definitely vital to understand the root of opacity in entrepreneurship, and this issue should be solved using different methods, such as increasing the effectiveness and the capability of the government, besides implementing less-burden taxation and a fairer regulation system. These might serve as the most cost effective strategies to encounter opacity. As a result, the money that has potential for outflow will retain and circulate within the economy system in the country.

Furthermore, the study had also come to understand the opacity in entrepreneurship in two different elements, which were the internal and the external elements. These findings revealed the priorities that differed among the individual entrepreneurs and factors of opacity in entrepreneurship. In fact, the internal and the external profiles are respectively manifested within different means of opacity in entrepreneurship.

In conclusion, this research provides important comprehension for the political and economy parties in Malaysia regarding the means of going opaque in the current business environment in Malaysia. By identifying the priorities in the opacity within entrepreneurships, Malaysia would be able to position a favoring business environment, not only to foster the growth of entrepreneurs locally, but also to attract more entrepreneurs/capitalists from abroad in future.

### **1.5.2 Theoretical Contributions**

In the current literature, several theories can explain or relate to the opacity in entrepreneurship stratagem. Institutional theory describes the causal entrepreneurial responses (off-the-books, gimmick, and run afoul of law) to the changes in economic situations and the changes in institutions (government, as well as tax and regulation). The romantic theory, on the other hand, explains a voluntary practice due to over-regulation in the legitimate economy. Meanwhile, the survivalist theory directs by-product of contemporary capitalism and survival practice pursued by those marginalized from the circuits of the modern economy.

This research had no intention to erupt fierce debate over which is better in terms of the view in subject, but to offer an additional different point of view from the primary respondents; the respondents who suggested the theory or the principle, while the researcher had been the assistant to foster and to complete the process.

Hence, this research contributed to the understanding of opacity in entrepreneurship in the Malaysian business conditions, by researching the multi-dimensional entrepreneurial concept in the theories of entrepreneurship. The individual entrepreneurs, with entrepreneurial attitudes and behaviors, influence the organization, as well as the socio-economic environment. In this research, the opacity in entrepreneurial behavior had been viewed as a reflector for the nation's economy environment and trend, instead of in a destructive manner. Then, this reflector was used as the main frame to develop a grounded theory, which represented the opacity in entrepreneurship.

## **1.6 Scope and Limitations of the Research**

The research scope is a coherence of the entrepreneurs' environment factors among the entrepreneurs and the means of opacity in entrepreneurship. Besides, this research reviewed the literature of the entrepreneurship. Meanwhile, the main focus of this research, which was the opaque side of the entrepreneurship, had been relatively scarce. The researcher traced the related subject of opacity in entrepreneurship, such as informal economy, off-the-books, tax haven, corruption, taxation, government, as well as formal entrepreneurship. The research underwent a review of literature and analysis of interviews. It had been found that the literature review and entrepreneur interview stressed on key causality, which was the aspect of government on opacity in entrepreneurship. Table 1.10 depicts the factors that have been commonly associated with non-compliance to tax obligations and regulations (Eric, 2003; Malkawi and Haloush, 2008; Oh and Lim, 2011; Braithwaite, Reinhart and Smart, 2010; Franzoni, 2000, Marti et al, 2010).

**Table 1.10:** Factors that are commonly related to non-compliance to tax obligations and regulations

<b>Factors</b>	<b>Description</b>
Government	Skeptical about government authority; Generalized trust in government; corruption
Taxation	Perception of fairness in tax system; Complexity of tax; knowledge of tax system/tax laws; tax rate, and marginal tax rate; enforcement efforts, such as audit; past experience with Internal Revenue Service enforcement
Legislative	Justice or fairness; enforcement; punishment, such as penalties; cost of compliance; obligation and perceived deterrence
Social Ethos	Civic duty; tax morale; knowledge of Peer behavior; ethics; tolerance
Demographic	Income; gender; Income source; education; culture
Opportunities	Opportunity to evade tax, tax havens, offshore financial centers, and jurisdiction; experience with other non-compliers, and tax preparers

Source: Compiled by author

Besides, the samples of the study were limited to SME entrepreneurs (local or foreigner) who had established their organizations in Companies Commission of

Malaysia. The present research selected only 1) entrepreneurial economic behavior (EEB), 2) the organizations, and 3) the socio-economic environment influences as constructs of the study. The language of the survey and interviews conducted had been in the language the interviewees were familiar with to gain an inadvertent exclusion of knowledge, experience, and sharing. The data analyses reflected only the perspectives of the respondents and not necessarily the researcher's view and literature references. Although there are numerous methods of analysis, due to the research objectives and resources, the method of analysis to the approach was restricted and is described later in the thesis.

### **1.7 Brief Introduction to Terminological Definitions**

Entrepreneurship is a multi-dimensional concept, as the definition and the measurement highly depend on the research undertaken (Sahin, Nijkamp, Baycan-Levent, 2007). While the off-the-books term is variously called the 'underground economy' or 'informal sector', this might include illegal activities and would mislead the research. For the purpose of this study, some specific terminologies were used and are defined in the following:

**The entrepreneur:** One who is ingenious and creative in finding ways that add to one's own wealth, power, and prestige, then it is to be expected that not all of them are overly concerned if an activity that achieves these goals adds much or little to the social product or, for that matter, even if it is an actual impediment to production (Baumol, 1990).

**Opaque in entrepreneurship strategem.** Brilliantly planned business operations, strategies, activities, and entrepreneurship intelligences that revolve around the grey area between legal and moral boundary, which consist of off-the-books, gimmick, and afoul of law.

- *Off-the-books*: Business operations, such as productions, as well as sales of goods and services, which are not reported or concealed from the states observation, being taxed or for other beneficial purposes (Williams, 2009).
- *Gimmick*: an unusual trick (mainly disapproving) used to make a product or activity more successful (Walter, 2008).
- *Afoul of law*: Doing something that is not allowed by law or rule or something the authority disapproves of (Wehmeier, 2000).

**Antagonistic** - Showing or feeling active opposes and contends against someone or something. The antagonistic subjects in entrepreneurship are mostly rivalry competition, corruptions, unfavorable regulation, and taxation system.

**Environmental factor**: Refers to the external factor contributed to the off-the-books entrepreneurship, such as government, regulation, taxation, economy, and social actor (Sim, Huam and Amran, 2011).

**Organization structure**: The arrangement and the formality of communication, authority relationship, as well as the workflow within an organization (Solymossy, 1998).

## 1.8 Thesis Line up

In order to achieve an effective and a quality thesis, the research design was organized into a structure of five chapters. The introductory chapter presents the historical and the theoretical background of entrepreneurship in Malaysia. Chapter I

also outlines the problem statement, the objectives of the study, the research questions, the significance of the study, and its contributions. For readers' understanding purpose, some terminologies and definition have been added as the key terms in the research.

Chapter II (literature review) reviews the micro-elements (entrepreneur orientation), the meso-elements (organization characteristics), and the macro-elements (entrepreneurial environment) from a general to narrower manner. Moreover, it reviews the relevant literature that centralizes in the related research. Besides, chapter II exemplifies the interrelationship between the research constructs.

Chapter III (Research Methodology) is the review of the research paradigm and the discussions concerning ontology, epistemology, and methodology (grounded theory methodology) employed in this research. In addition, the chapter discusses the qualitative research method, the sampling method, and the research instruments.

Chapter IV (The Finding) reports the findings retrieved from the qualitative interview with the data analyzed from manual transcription. Besides, an initial theoretical framework with the proposition to the research is demonstrated. Chapter V is the explicit explanation of the opacity to the entrepreneurship context.

Chapter VI is the interpretive discussion of the findings and concludes the research with the contributions from the existing literature, as well as the final theoretical framework. Furthermore, an overall discussion of the contributions and the significances of the theory towards the academic field, the government party, and the practitioners is presented. Last but not least, recommended guidance for future researches, either in the same trend or otherwise, is provided

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