

# Entrepreneurial Readiness among the Bottom of Pyramid Community in the Innovation-Centred Economy

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## Abstract

**Purpose:** This study's objective is to present insights into the less studied field of psychological factors that affect the readiness of Bottom of Pyramid (BOP) community to be involved in the establishment of businesses in an innovation-centric economy. The Malaysian government has taken the initiative to transform the BOP community members into becoming non-passive entrepreneurs so that poverty can be eliminated by 2020.

**Design/methodology/approach:** Ten BOP communities of Malaysia's Northern Region had been approached for interviews. Face-to-face and thorough interviews were conducted for in-depth probing.

**Findings:** The results show that self-efficacy and entrepreneurial orientations are very crucial to encourage the creation of new endeavours by the BOP community. However, these factors need to be complemented with the supports from relevant parties.

**Research implications:** This research stimulates the interest of other researchers to gain a more definitive proof on the entrepreneurship concept among Malaysia's BOP communities.

**Practical implications:** This study provides knowledge from the perspective of the attitude and orientation of the BOP community to various entities such as agencies, SMEs, government, huge corporations, as well as non-profit organisations.

**Originality/value:** The elements of self-efficacy and entrepreneurial orientations could be utilised as a guideline for BOP entrepreneurs to examine their readiness in creating business ventures.

**Keywords:** BOP entrepreneurs, Psychology approach, Entrepreneurial readiness

**Introduction**

There could be no realization of the BOP community's potential when there is no entrepreneurial orientation. The goal of this orientation is the creation of market, and promotion of innovation. Through this, the BOP community members will be transformed into becoming active entrepreneurs who adopt innovation in their business models (Simanis and Milstein, 2012); especially in an economy that is innovation centric. As promoted by the New Economic Model Agenda, the attainment of this economic model is imperative. This is particularly true in the initiatives of integrating the nation's economy with worldwide economic system (11th Malaysia Plan 2016-2020). Malaysia has to continuously transform its economy to attain the innovation-centric economy, especially of those BOP communities. Appreciating this, the Malaysian government has expressed its desire of positioning the nation as a developed economy. Therefore, the acceleration to becoming an innovation-centric economy. To become a developed nation means the transformation into being a high-income country, and as such poverty eradication should be the main agenda.

For Malaysia, to improve the BOP's wealth is the main foundation to the nation's agenda of socio-economic growth. This is to guarantee that all Malaysians will reap the benefits from the nation's development, irrespective of their geographical location, ethnicity, gender and socio-economic status (Azmat & Samaratunge, 2013).

The government of Malaysia has put forth various initiatives that facilitate conducive and supportive business landscape for the BOP community to establish businesses. An initiative that has been established is the Rural Economy Funding Scheme (SPED). This is a funding scheme specially developed for the BOP communities for them to have the access to capital where raw materials could be purchased and procured; as well as to improve their place of business. As a consequence, it is envisioned that the community members will become entrepreneurs who are competitive, resilient and dynamic. Moreover, the Rural Transformation Centre (RTC) is an entrepreneurial initiative established for the rural entrepreneurs as well as BOP community. RTC is where integrated initiatives are implemented. It is part of the government's efforts under the National Blue Ocean Strategy 4 (NBOS4). The key objective of RTC is eradicating hard-core poor households and halving the number of BOP communities. Here, RTC has the role in maximizing rural areas' potentials as growth drivers and generators of new economy.

The government of Malaysia acknowledged that through this effort, the key agenda of eradicating poverty could be attained. In fact, many programs with this objective have been introduced, in which consequently there was a steep reduction in poverty at 52.4%, 12.4% and 3.8% in 1970, 1992 and 2009, respectively (Tenth Malaysia Plan, 2011). Additionally, various efforts have been put forth by the government where investments are made in asset ownership and entrepreneurship programs like cooperative-based community, as well as businesses through funding incentives and facilities, and management and leadership initiatives. There will also be partnerships with huge companies for the BOP's business opportunity. In fact, entrepreneur development organisations (EDOs), like MTDC, SME Bank and SME Corporation Malaysia (SME Corp) are continuously providing entrepreneurial trainings appropriate to market requirement (11th Malaysia Plan, 2016).

Even though the poverty issue among the BOP communities has been exceptionally managed, it has its own set of challenges. Specific interventions have to be created for the improvement in readiness and attention. This is for the elimination of constant dissimilarity between the poor

and rich, as well between those residing in remote rural areas or urban slums and better-off urban dwellers (Muhammed and Haron, 2011). In this respect, the government needs to encourage the BOP community to engage in the creation of new business ventures that could generate income and employment as well as create new markets. To this extent, entrepreneurial activities lead to economic mobility, innovation, job creation and diversification of small business ventures (Soomro & Shah, 2015). Nevertheless, in spite of the efforts put forth by the Malaysian government such as trainings, development programs, and financial assistances, the BOP community is still encountering issues and challenges when starting businesses.

Perhaps, to compete in an innovation-centred economy, the BOP community members need to possess remarkable distinction with the right attitude, values and aspirations in the pursuit of their desires, aims and dreams of establishing their businesses (Soomro & Shah, 2015). In this vein, BOP community needs to instil the right behaviours, mindset, and attitude as well as entrepreneurial orientation when new ventures are established (Keogh & Galloway, 2004). In fact, very few research has been conducted on the entrepreneurial attitude and behaviour through psychological approach (Ferreira et al. (2012). Applying psychological approach provides more insights into entrepreneurial readiness among BOP communities in establishing their businesses.

Hence, it is highly important to understand the psychological elements that refrain the BOP community from developing new business particularly in the era of innovation-centred economy. This raises the need of investigating the elements of self-efficacy and entrepreneurial orientations among BOP community members towards their entrepreneurial readiness in venture creation. Preliminary interviews had been conducted with selected BOP communities residing in the rural areas of Northern Malaysia. The research seeks to answer the following questions.: In BOP communities' context, 1) what are the motivation and preparation in starting their own businesses? (2) does psychological element such as self-efficacy prohibit them from starting their own entrepreneurial ventures? (3) does entrepreneurial attitude orientation hamper them from venturing into their own business?

### **Literature Review**

In today's world, poverty could be classified as one of global relentless social issues. It is also one of highly significant, but unsatisfied Millenium Development Goals (United Nations 2004). Even though absolute poverty level has improved (i.e., living on not more than US\$1.25 daily), the attainment of 2015 goals of reduced poverty level remained unanswered (United Nations 2009). This is because the disparity in global income is continuously increasing (Calder 2008; Cheema 2005). There are many people still living in unacceptable conditions such as poverty, meagre income, unemployment and low business level as results of a myriad of circumstances such as overpopulation, economic turmoil, social backwardness and illiteracy (Soomro & Shah, 2015).

As a consequence of these circumstances, entrepreneurship could be considered as the tool of alleviating poverty. This is done through the establishment of businesses, stiffer competition as well as technological changes and increased innovation (Johansen et al. 2012). The Malaysian government is emphasizing on poverty eradication through improvement in the targets set on poverty via the Millenium Development Goals (MDGs). There was a continued commitment when the Ninth Malaysia Plan, 2006-2010 aimed to attain growth with distribution; and the targeted overall poverty was set at 2.8 percent with hard-core poverty to be eradicated by 2010. This concern continued being emphasized; and in 2012 through the

Malaysian Budget, RTC was established to stimulate the BOP community into entrepreneurship. In fact, RTC aims at improving the promotion and marketability of BOP communities' products (10<sup>th</sup> Malaysia Plan 2011). In spite of the various programs put forth by the Malaysian government for poverty eradication, the results are still vague. This could possibly be attributable to the primary assumption that: for a successful outcome, the BOP community members' attitude must match their readiness level. Here, the highly ambitious initiatives could likely fail as the BOP community is unable or not ready to react. Maybe this issue could be examined from the perspective of individuals' attitudes whereby entrepreneurial readiness concept could ultimately lead to poverty eradication in the innovation-centric economy.

### ***The BOP entrepreneurs in the innovation-centred economy***

"Bottom of the pyramid" is also called as "base of pyramid". The term is a reference to a socio-economic group that is the poorest and largest in the economic chain (Pervez et al, 2013). The term was first used in business strategy field by Prahalad and Hart (2002); and subsequently adopted by the marketing and strategic areas (Ireland, 2008). It is argued by Prahalad and Hart (2002) that businesses could receive a significant benefit from the BOP community. This is because the BOP

market could be converted into a profitable business endeavour. Additionally, entrepreneurs from BOP community provide the best condition for innovation that will be disrupting to status quo (Esko, Zeromskis & Hsuan, 2012). In view that two-third of global population is constituted by this unexplored market, this would be a multitrillion-dollar industry. The BOP communities could be consumers as well as 'seedbed for innovation'; whereby they could be the producers, as well as business partners (Karnani, 2007; Esko, Zeromskis & Hsuan, 2012). London & Hart (2011) suggested that the wealth creation alongside the BOP will allow this group to develop, and consequently tackling the group's poverty issue.

There is certainty that the initiatives to propel businesses' competitiveness and success will significantly influence the nation's economy. The government of Malaysia is continuously investing to improve the population's technical abilities, creativity, innovativeness and proactiveness towards becoming an innovation-centric economy. Malaysia is currently heading towards sustainable economy. The nation has shifted from agricultural-based production to k-based economy, and subsequently to innovation-centric economy where the key drivers of the nation's economic growth are knowledge, innovation and 'know-how' (EPU, 2010). In consonant with this situation, growth is powered by entrepreneurship serving as innovation driver; and the notion is how readiness and attitudes could be established within the BOP community's mindset. If only the poor or the BOP community be recognised as creative and resilient entrepreneurs, instead of burdens, great opportunities will crop up. Here, to facilitate successful establishment of businesses, huge corporations could transfer their knowledge and resources this group (Karnani, 2007; Rahman, Amran, Ahmad & Taghizadeh, 2015). Hence, the development of BOP community's market must be given a support as there is an opportunity of creating huge number of new entrepreneurs from the most basic level; i.e., from women entrepreneurs and distributors to micro enterprises in villages. The micro-enterprises would be vital components to a nation's economic growth (Prahalad and Hart, 1999; Jyoti et al. 2011). When the government, the BOP community, external agencies as well as huge, medium and small businesses come together under a common agenda, the BOP will enjoy more

opportunities. Concurrently, the BOP community members have to have the tenacity to learn, change and experiment for the establishment of their own businesses (Jyoti et al. 2011; Anderson & Billou, 2007; Rahman et al. 2016).

### ***The BOP Community Entrepreneurial Readiness***

There are significant number of studies on the world's poor (Prahalad & Hart, 1999; Simanis & Hart, 2006). However, most past research has not examined the BOP community members' potential of becoming resourceful entrepreneurs. This could be due to their low readiness level or unpreparedness in running businesses. Past studies have mentioned on the various issues that hinder the group from being enthusiastic about entrepreneurship. Those studies found that corruption, lack of knowledge and education, poor infrastructure, no distribution channels, racial or religious issues, inadequate strong and enforceable legal framework and various other reasons have deterred the BOP community members from becoming entrepreneurs. There is still ambiguity surrounding the BOP community members' skills, knowledge, resources and attitudes, which are factors for entrepreneurial success (Ruiz, Soriano & Coduras, 2016). Therefore, the BOP community must first start small as this will allow the space and time for the business to grow without much investment done (Goyal, Sergi & Jaiswal, 2015). The readiness concept means the extent to which a community is willing to act upon a concern. Readiness has to be problem specific, important and measurable for strategy development and intervention (Arnold & Valentin, 2013). When there is a contemplation in making changes, the key to a successful change is preparation. Changes of this nature are difficult, and there has to be environmental climate that is accommodating to the changes. For an orderly organizational change, the BOP communities have to have unclouded comprehension on the impact of this change, and the role they have in achieving economic growth. Additionally, the compelling mechanism when change is implemented is effective communication. For an orderly change, the community or people must understand the impact of change on them, and their roles in attaining the new target (Hall, et al 2012).

### ***Psychological Approach in Determining the Readiness of BOP Community***

To develop entrepreneurial readiness and attitudes is important, and the elements are defined as the degree of the perception of good opportunity in establishing a business (Soomro & Shah, 2015). The perception towards establishing businesses is intentional and attitudes are the best predictors. Essentially, the constraints of BOP's readiness in becoming entrepreneurs could be examined from the attitude development aspect (Ahlin, Drnovsek & Hisrich, 2014). This is an intricate concept with an assortment of characteristics that identify entrepreneurial readiness. The key elements could be found from psychological terms like entrepreneurial attitude orientation and self-efficacy (Ruiz, Soriano & Coduras, 2016). Self-efficacy is one's belief that he/she could organize and execute effectively in producing an output. Particularly, self-efficacy is well studied by the entrepreneurship literature as this notion causes individuals to believe that they could undertake the task to achieve the expected output (Bandura, 1997). Self-belief of efficacy among BOP community is very crucial because this belief could promote the readiness of the BOP in venturing into new business. Individuals with high self-efficacy would probably be more persistent in pursuing their goals than those of low self-efficacy (Ahlin, Drnovsek & Hisrich, 2014). Here, the relationship between entrepreneurship and self-efficacy is vital as there are intricacies and remarkable risks in entrepreneurship; only those with high self-efficacy have the readiness for business establishment.



In similar vein, entrepreneurial orientation is an important determinant of BOP community's entrepreneurial readiness (Okhomina, 2010). Even though BOP community lacks the access to technology and resources, this will not prevent the community from starting businesses (Tasavori, Zaefarian & Ghauri, 2015). Bolton & Lane (2012) defined the concept of entrepreneurial orientation as psychological approach that assists in elucidating the rationale behind one's behaviours towards the readiness to start a business. Entrepreneurial orientation identifies three key elements and those are innovativeness, risk-taking and proactiveness (Ibrahim & Mas'ud, 2016). The propensity of taking risk relates to the attitudes that ascertain one's inclination towards risks. It means that risk-taking individuals are willing undertake a commitment in spite of probable failure. In fact, individuals who intend to start a new business have higher risk-taking inclination. As such, the attitude of tolerance towards risks is the predictor for entrepreneurial readiness (Soomro & Shah, 2015).

Furthermore, innovativeness of entrepreneurial orientation plays a major role in improving the abilities to cope with an environment that focuses on innovation. Not less than 56% of the world's population has the required knowledge and skills in running a business, but only 16.6% possessed the readiness to start a new venture (Ahlin, Drnovsek & Hisrich, 2014). Finally, the attitude of proactiveness helps the people to discover and exploit the environment towards opportunity identification better than their competitors (Covin & Slevin, 1989). In this vein, the BOP community needs to embody features such as willingness, adaptability and perseverance, to take responsibility for unsuccessful ventures. Proactiveness means to emphasize on the prediction and prevention of problems prior to their occurrence. It also mirrors the orientation of one's action, whereby rules are creatively interpreted, and high persistence level to changes (Ruiz, Soriana & Coduras, 2016). BOP community needs to possess this entrepreneurial behaviour, in which may influence the readiness to be involved in entrepreneurial activities. In accordance to the above explanation, it can be surmised that psychological approaches of self-efficacy and entrepreneurial orientation such as proactiveness, risk-taking, and innovativeness are very crucial in pushing the entrepreneurial readiness among BOP community to venture into new business creation.

## **Methodology**

This research aims to examine the factors that impede the BOP community's readiness in innovation-centric economy using the psychological approach. It is imperative to gain insights into the BOP community's tendency towards entrepreneurship, and understand the drivers to the community members' readiness as well as the way their small businesses operate for sustainability assurance.

The data were gathered from BOP communities of the Northern states (Perak, Penang and Kedah). In total, the interview sessions had been participated by 10 potential entrepreneurs; in which the snowball sampling approach was used. The semi-structured interview sessions were done face-to-face. During the interviews, the respondents were given an explanation on the definition of psychological approach. Thereafter, the respondents were queried on their concerns in relation to their attitudes and orientation before starting businesses. The respondents were consisted of Malay (60%), and Chinese (40%) with equal number of female and male respondents. Most respondents' educational level was of high school (50%), bachelor degree (30%), and diploma (20%). The respondents were from Penang (40%), Perak (30%) and Kedah (40%). The respondents were working in varied occupations. As for the types of

business they intend to establish: food & beverages (30%), manufacturing (30%), online business- handbags, apparels (20%), security accessories (10%) and apparels (10%).

### **Findings**

Similar to other developing economies, Malaysia is also experiencing the difficulty in creating jobs for its population. During the period of economic turbulence and due to development in economic landscape, jobs are being eliminated; and lack of foreign investment has reduced the creation of new jobs. These situations may worsen the poverty condition in Malaysia. Concomitantly, Malaysian government realised that it is vital to have a sustainable internal growth. As a result, Malaysian government has initiated few programs that aim to instil entrepreneurial attitude among the BOP communities. The Malaysian government is very concern on the socio-economic development of the BOP community particularly in the innovation-centred economy. Despite of government's initiatives, it is apparent that psychological approach plays an important role in encouraging the BOP community to engage with entrepreneurship.

The study's preliminary results indicate the key issues of BOP concept and the factors that refrain this community from establishing businesses. The results would offer insights into these issues.

#### **a) Inspiration to venture into businesses**

There has to be an inspiration in creating businesses. In fact, this notion is supported by the argument that to exit poverty, the poor have to have the motivation and inspiration (Si et al., 2015). Queries were made on the respondents' inspiration in starting businesses. Three respondents mentioned that this factor was the element that sustains their businesses. A respondent stated:

*"Doing business is great because you can be independent and have your freedom to manage your own business" (translation).*

A young respondent said:

*"What motivates me to start a business is that I can manage my own time and possess the flexible time as compared to working people." (translation)*

A respondent stated that to own a business means the generation of more wealth, and a person must be highly motivated so that the business is sustained. This respondent said:

*"To excel in business, we need to have a high sense of enthusiasm and motivation because once you have these, they will serve as the foundation to generate more money....." (translation).*

#### **b) Preparation to start own business in the innovation-centred economy**

Most BOP communities acknowledged that the establishment of a business could not be an overnight task. To run a business in an innovative and highly aggressive market, there must be persistent and continuous search for novel ideas, skills and knowledge. From this perspective, most respondents admitted that a thorough preparation must be made prior to the establishment of any ventures. The followings are the remarks made by three respondents:

*"I am looking at the future and I have to be prepared for the obstacles that will for sure interfere in the future". (translation)*

Another respondent said:

*"I plan to have a big business but need to be more detailed in the preparation because of this challenging environment....mentally and physically". (translation).*

A respondent further mentioned that:

*"Business venture requires a lot of money and I have to make a solid preparation on that". (translation).*

c) The importance of self-efficacy in starting a new business

According to Chen et al, (1998), self-efficacy means one's self-examination of his/her control and capability in a particular circumstance. According to one of the respondents:

*"To become an entrepreneur, we need to believe in ourselves and (have) high confidence level; but this must be accompanied by our ability and skill to run the business. Self-belief alone is not enough". (translation)*

A respondent made an interesting statement:

*"Sometimes we have the knowledge, skills and familiar with our potential business especially the nature of products (e.g. foods, handcrafts) that we plan to sell. However, we are not confident and assured enough that we are capable of running the business. So we just put on hold on that". (translation)*

Moreover, as mentioned by another respondent:

*"Although we believed that we are ready to run a business and certain that we can execute our actions, there are many external factors (infrastructure, financial aid) need to be considered and this situation always brought us down". (translation)*

c) The importance of entrepreneurial orientation (risk, innovativeness and proactiveness) in starting a new business.

By definition, entrepreneurship involves taking risk, innovativeness and together with proactiveness make up entrepreneurial orientation. The findings showed that the entrepreneurial orientation of most respondents plays an important role in pushing them to start a business. One of them mentioned:

*"To embark on a new business requires a lot of effort and involves high risk. I like to take risk because if you do not take risk, you cannot see what you will get. But, risk is just like gambling and if you are not careful you will fail". (translation)*

However, another participant said :

*"Of course risk is one of the challenges because poor business decision will bring you down, but you have to plan on the calculated risks...' Specifically, in this innovation economy, you must be prepared to create a new thing that will give something to the society but most importantly is to generate money". (translation)*

Moreover,



*“Proactive is also important because we need to be prepared for the consequences of doing business such as competition, lack of supplies, internal problems and other matters. The most important thing is to have the perseverance and initiatives to sustain- which are difficult to achieve especially when you do not receive sufficient support.” (translation)*

Additionally,

*“To start a new business is very challenging especially during turbulent economy and we need to be tough, robust and willing to dispense our effort and initiatives to achieve our goals. However, we will fail if we do not receive assistances from relevant parties. In other words, all factors are encompassing...” (translation)*

The findings revealed that psychological approach is crucial; but other factors such as support from the government in terms of financial aid and initiatives for start-ups are also vital for this community to embark on new business ventures.

### **Discussion and Conclusion**

The Malaysian Government’s Transformation Programme has made the BOP community as part of its vital agenda. The community has to be prepared for any challenges and builds the required capability and capacity to benefit from its entrepreneurial undertakings, particularly in an innovation-centric economy. Nonetheless, this issue seems to have escaped many researchers’ consideration from the psychological approach. As such, a good study on the BOP community’s readiness in embracing entrepreneurship will expand the literature of entrepreneurial knowledge, business innovation, knowledge management, and business fundamental. It is imperative that the BOP community’s tendency towards entrepreneurship be better described; and the factors that refrain the community from running businesses and ensure business sustainability be understood. This study concludes by presenting a discussion on the study’s findings that are related to the research questions. Those questions are: In BOP communities’ context, (1) what are their inspiration and preparation to start own business? (2) does psychological element such as self-efficacy prohibit them from starting their own entrepreneurial ventures? (3) does entrepreneurial attitude orientation hamper them from venturing into their own business?

In relation to the first question, the results present two considerations. First, the inspiration of establishing new business is highly important, and it is a vital prerequisite for the BOP community in developing enthusiasm in entrepreneurship. Second, the results indicate that inspiration must be supplemented by readiness as well as the preparation to realize vision into reality, which is the establishment of business. These inspiring entrepreneurs have to be innovative, creative, knowledgeable and prepare thoroughly prior to establishing their businesses. In fact, they must be consistent in looking out for new opportunities so that the venture that suits them could be determined.

In relation to the second question, besides innovative business, self-efficacy or self-belief is also considered vital before a new venture is undertaken. Nonetheless, self-efficacy by itself is insufficient. The BOP community has to be equipped with the capability, skills and knowledge on the services or products offered. This community is still relying on the business mentors and government initiatives. It is difficult for this community to seek opportunities or understand business challenges without government support. As for the third question, many respondents were agreeable that prior to establishing a business, the risks must be managed. If there are no appropriate plan and implementation, a bad decision could cause business failure. Therefore,

in the context of BOP community, the drivers that propel this community to establish businesses do not only come from the psychological viewpoint, but externally as well.

The government of Malaysia has offered various programs to motivate this community identifying opportunities, and be connected to the local community's economic growth. Nonetheless, it could be seen that the community does not only need government support, but its very own mindset as well. In this respect, if there is no resilience in business, then the community is yet to be ready in establishing businesses. As a conclusion, this research presents preliminary comprehension on the BOP community's readiness in establishing businesses. It is argued that in the context of BOP community, the research presents the knowledge from the aspect of BOP community's orientation and attitudes to various entities such as SMEs, government, huge corporations, non-profit organizations and agencies. Additionally, the business advisory agencies and policy makers could understand this community better. As a consequence, there will be effective trainings, as well as assistance and development initiatives to ensure that the community's poverty is eradicated.

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