



# The Impacts of Entrepreneurial Orientation Dimensions to the Success of Malaysian Smes

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## Abstract

Firms are always seeking for new opportunities to achieve higher performance, especially Small and Medium Enterprises (SMEs), which some has been evaluated by SME Corporation. However, none of SMEs in Malaysia achieves the highest performance according to their score measurement. The aims of study were to determine the relationship between the EO and firm performance and determine the significant predictor variable of firm performance among SMEs. There are five dimensions of EO namely innovation, risk taking, market proactiveness, autonomy and competitive aggressiveness used to analyse which dimension are the most important using a statistical analyses such as correlation and multiple regression analysis. Based on the findings, SMEs should focus more on risk taking, market proactiveness and innovativeness in order to increase the performance of their firms in the challenging business market.

**Keywords:** *Entrepreneurial Orientation*

## 1. Introduction

Small and Medium Enterprise (SMEs) play an important role in a developing country. It is a type of business that contributes to the economic growth of a country. SMEs should place greater attention in supporting the SMEs growth through enhancement in innovation, increased in productivity and global market penetration. Recently in 2016 National Budget, there are many efforts and initiatives for SMEs such as financing schemes, SME Technology Fund to enhance SMEs performance. In Malaysia, SMEs are the sector represented more than 50% of the population. The role of small and medium enterprises (SMEs) in promoting endogenous sources of growth and strengthening the infrastructure for accelerated economic expansion and development in Malaysia has been recognized. During the Ninth Malaysia Plan (2006-2010) period, the principal SME policy thrust is the development of a competitive, innovative and technologically strong SME sector which to strengthen the technological capability and capacity of SMEs to meet the challenges of globalization and increasing competitive advantage to generate more profits and better performance. To complement the National Innovation Agenda, SME development programs under the 10th Malaysia Plan will focus on developing SMEs that are innovative, competitive and resilient. They can then, in turn, contribute significantly more to the economy (SMIDEX, 2010).

Hashim (2002) noted that studies in entrepreneurship development emphasizing in entrepreneurial strategy should help to overcome firm performance among SMEs. Among entrepreneurship development studies is the entrepreneurial strategy among SMEs' firms was at the basic stage (Hashim, 2000, 2002). Therefore, more in depth studies emphasizing entrepreneurship development should help in enhancing SMEs' performance. SMEs entrepreneurial orientation (EO) has been identified as one of the entrepreneurship strategy to enhance the performance (Hitt,

Ireland & Hoskisson, 2003; Miller, 1983; Wheelen & Hunger, 2002). Studies have investigated the link between EO and firm's performance. Performance is important to many firms and a lot of them seek to maximize shareholder wealth and pay good dividends to their investors through high performance (Odhiambo, 2015). However, studies have returned mixed findings indicating weak and sometimes negative correlation between entrepreneurial orientation and performance.

In an environment of rapid change and shortened product and business model lifecycles, the future profit streams from existing operations are uncertain and businesses need to constantly seek out new opportunities. Previous researches had proven that entrepreneurial orientation strategies were significantly related with business performance (Hitt, Ireland & Hoskisson, 2003; Miller, 1983; Wheelen & Hunger, 2002). Wiklund, (1999) had pointed out that the entrepreneurial orientation has sustainable positive effects on the growth and financial performance of the firms in the long run, in addition to its effect on the performance in the short run. Entrepreneurial orientation (EO) research also has blossomed over the years (Soine et al, 2013). Past studies have found that those businesses that adopt a more entrepreneurial orientation (EO) perform better (Brouthers et al, 2014).

The Lumpkin and Dess (1996) model identifies several performance measures including sales growth, market share, profitability, overall performance, and stakeholder satisfaction. Traditional measures of success include return on investment (ROI), return on equity (ROE), return on asset (ROA), or market share, have been used as a measure of firm's performance, these measures may not be appropriate or adequate for entrepreneurial SMEs (Kropp et al, 2005). According to Kropp et al, (2005), emerging businesses are essentially different from established firms: many emerging businesses are private and not required to disclose financial information; some measures, such as growth rates on a small base are misleading and erratic; and new firms

may not yet have reached break-even. Failure rates for entrepreneurs are high (Timmons and Spinelli 2004).

## 2. Literature review

In this paper was based on the work of Murphy et al. (1996) to measured firm performance variable with three dimensions: efficiency, growth, and profit. The respondents rated the firm performance on a five-point scale in relation to competitors. Three items measured efficiency: return on investment, return on equity, and return on assets in the past three years. Similarly, three items measured growth: sale growth, employee growth, and market share growth. Three items measured profit: return on sales, net profit margin, and gross profit margin (Murphy et al., 1996).

Entrepreneurial orientation (EO) is the concept used to refer to the processes and endeavors of organizations that engage in entrepreneurial behaviors and activities (Lumpkin and Des, 2001). Entrepreneurial orientation is a new era of investigation for firm performance, it is proving to be an area of significant importance. SMEs with high entrepreneurial orientation are more "gain success" in the business environment. Nevertheless, the awareness on the importance of entrepreneurial orientation in enhancing firm performance of SMEs is still low as the focus is more on the profit. Furthermore, the relationship between entrepreneurial orientation and firm performance of SMEs is not highly researched.

According to Wang (2008) entrepreneurial orientation (EO) is a significant factor for a firm's success. This is based on the literature search done by Lumpkin and Dess, 2001; Kropp, Lindsay, and Shoham, (2006) agree that entrepreneurial orientation has been conceptualized as the process and decision making activities used by entrepreneurs that leads to new entry and support of business activities. The majority of the research found that the firms applying the entrepreneurial orientation (EO) and organizational performance is conducted more in developed economies (Wei and Ling, 2015). Furthermore (Zahra and Covin, 1995; Wiklund, 1999) have pointed out that the entrepreneurial orientation in the firms has sustainable positive effects on the growth and financial performance of the firms in the long run, in addition to its effect on the performance in the short run.

Lumpkin and Dess (2001) five-dimension model of Entrepreneurial Orientation (EO) was used as the independent variables of the study. Entrepreneurial Orientation (EO) was perceived as the multidimensional construct comprising of innovativeness, proactive, risk taking, autonomy and competitive aggressiveness dimensions. It referred to the Small and Medium Enterprises (SMEs) methods that in turn lead to desired outcome performance. However, an in depth examination of past studies on firm performance reviewed many research limitations in these studies. These researchers gave recognition of their own limitations to assist future researchers when conducting new research. In fact, it was these research limitations that provided the impetus to investigate further into this firm performance issues. It is the aim of this study to contribute significantly to address this knowledge gap as well as to contribute to the established knowledge in this field.

## 3. Methodology

The data were collected from the sample using the validated and reliable research instrument. After the data were collected, they were analyzed using a combination of statistical analyses such as descriptive statistic, correlation analysis and multiple regression analysis. Among the descriptive statistics used were frequency distribution, measures of central tendency and measures of variability. Correlation analysis was used to determine the relationship between the independent and dependent variables, while multiple linear regression analysis was used to determine

the contributions of each of the significant predictors or independent variables towards the variance in the criterion or dependent variables. The contributions of independent variables to the variance in the dependent variable could be interpreted using the coefficient of multiple regression of determination  $R^2$  value. In response to research question, multiple linear regression analysis was able to identify the predictor variable (s) that contributed significantly to firm performance.

## 4. Results and discussion

**Relationship between the EO and the firm performance.** The objective was to determine the relationship between the specific dimensions of entrepreneurial orientation (innovativeness, risk taking, market proactiveness, autonomy and competitive aggressiveness) and dependent variable, firm performance. In achieving this, Pearson r correlation coefficients between each pair of variables were employed. As depicted in Table 1, entrepreneurial orientation dimensions: innovativeness ( $r = .312$ ,  $p < 0.05$ ), risk taking ( $r = .256$ ,  $p < 0.05$ ), market proactiveness ( $r = .259$ ,  $p < 0.05$ ), autonomy ( $r = .299$ ,  $p < 0.05$ ) and competitive aggressiveness ( $r = .280$ ,  $p < 0.05$ ) were positively related to firm performance. They were all statistically significant. The magnitude of correlations between dimensions of entrepreneurial orientation and firm performance was a weak and moderate relationship (Elifson, et al., 1998). The moderate relationship was found to exist between innovativeness and firm performance of SMEs.

**Table 1:** Pearson Correlation Coefficient between Entrepreneurial Orientation Dimensions and Firm Performance

	FP	IN	RT	MP	AU	CA
FP	1					
IN	.312	1				
RT	.256	.505	1			
MP	.25	.646	.679	1		
AU	.299	.633	.528	.743	1	
CA	.280	.573	.449	.701	.691	1

**Notes:** P value is significant at the  $p < 0.01$  level (2-tailed)

The zero-order correlations are the simple Pearson's correlation coefficients that show innovativeness had the largest positive correlation with firm performance, followed by autonomy. All the correlations were significant ( $p < 0.01$ ). This means that as level of innovativeness increased, so did the level of firm performance and the same happen to others dimensions. The findings provide evidence that entrepreneurial orientation does exist in the current practice of entrepreneurs and has a great impact on firm performance. This supported by Wang (2008) entrepreneurial orientation was a significant factor for a firms to success.

**Predictor of Firm Performance.** This paper was to identify the best predictors for explaining firm performance. To find out the predictors of firm performance, a-five predictors multiple linear regression model was proposed. The five-predictor variables are entrepreneurial orientation dimensions: innovativeness ( $X_1$ ), risk taking ( $X_2$ ), market proactiveness ( $X_3$ ) autonomy ( $X_4$ ) and competitive aggressiveness ( $X_5$ ). The stepwise multiple regression method was used to identify the significant predictors of firm performance. Based on the stepwise method, three of the factors were found to be significant in explaining firm performance. The three factors were innovativeness ( $X_1$ ), risk taking ( $X_2$ ) and market proactiveness ( $X_3$ ). In applying the multiple regression equation,

$$\gamma = \beta_0 + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + \dots + \beta_n\chi_n + e$$
, as the model to predict firm performance.

The largest beta coefficient is (-.35) which is for risk taking. The negative symbol indicates negative linear relationship between the predictor and the dependent variable. It means that one standard deviation increase in risk taking is followed by .35 standard

deviation decrease in firm performance. The Beta value for market performance in standard score units was as follows:

#### Firm Performance

= 2.17 + .28(innovativeness) -.35(risk taking) + .31(market proactiveness)

This model suggests that overall firm performance of the entrepreneurs could be significantly enhanced by improving the innovativeness, reduce a risk in business and enhance market proactiveness. This finding was found to be consistent to the reports made by past researcher. Thus, this finding also support by Hart (1992) argued that some entrepreneurial strategies under certain conditions may even cause poor firm performance. But, on the overall number of researches that find positive relationship between EO and performance exceeds the number of researches that refute it. Therefore, it can be said that firms involving in entrepreneurial orientation activities perform better and get high performance than the firms not involving in entrepreneurial orientation activities.

## 5. Conclusion

Overall in this paper, performance was characterized as multi-dimensional and dynamic in nature. The integration of the three major perspectives within performance-related research, namely profit, growth and efficiency as mentioned in the preceding chapter is necessary for understanding why specific business characteristics and situational factors result in high firm performance. It can be concluded from the data given that there was a strong relationship exists between entrepreneurial orientation dimensions and firm performance and indicated that as entrepreneurial orientation dimensions increased, firm performance increased. This paper also suggests that overall firm performance of SMEs could be significantly enhanced by improving the risk taking, market proactiveness and innovativeness. This finding was found to be consistent to the reports made by past researchers. The findings of this paper also support a positive effect of entrepreneurial orientation on the success of the SMEs in the past industry. This was consistent with past findings that suggested there was an association between entrepreneurial orientation and firm performance (Wiklund & Shepherd, 2005).

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