

The Relationship between Entrepreneurial Orientation and Business Performance of SMEs in Malaysia

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Abstract- *This paper investigates the relationship between entrepreneurial orientation and the business performance of SMEs in Malaysia. The owner/managers were sent a package of questionnaires which comprised the Entrepreneurial Orientation Questionnaire EOQ, the Business Performance BP questionnaire and the demographic questionnaire. The finding revealed that there was a significant positive relationship between entrepreneurial orientation and business performance of SMEs in Malaysia. This study also provides an opportunity to expand the research on other industries such as manufacturing, constructions, agricultures and telecommunications.*

Keywords- *Entrepreneurial orientation; business performance; small medium enterprises.*

1. INTRODUCTION

In the fast changing and increasingly competitive global market environment, small and medium enterprises (SMEs) are found to exert a strong influence on the economies of many countries (Ghobadian & Gallea, 1996; Ladzani & Van Vuuren, 2002). SMEs provide the economy with economic growth, employment and innovation. The SMEs have contributed significantly to job creation, social stability, and economic welfare of the countries. Studies have shown that SMEs have played major roles in fostering economic growth, generating employment opportunities and reducing poverty (Arinaitwe, 2006, Ayyagari, Beck & Demircuc-Kunt, 2005; Karides, 2005; O'Regan & Ghobadian, 2004; Audretsch, 2002). In Malaysia, SMEs have also played a critical role in the economic development of Malaysia. The Census of Establishments and Enterprises (Census) 2011 conducted by Malaysian Department of Statistics, revealed that, 97.3 percent or 645,136 of business establishments in Malaysia were small and medium enterprises with the highest concentration in the services sector, especially in retail, restaurant and wholesale businesses. It has been established that entrepreneurial orientation played an important role to the success of entrepreneurs throughout the world. The entrepreneurial phenomenon is on the rise and ever growing (Gartner & Shane, 1995; Thornton, 1999). The world has grown into an entrepreneurial economy with new business being created and entrepreneurs are hailed as the new heroes of the economic

development and competitive enterprises (Sathé, 2003). In the rapidly evolving environments of competition and change, incorporating an entrepreneurial approach as a foundation of strategic management is necessary (McGrath & MacMillan, 2000). The objective of this study is to investigate the relationship of entrepreneurial orientation and business performance of SMEs in Malaysia.

2. LITERATURE REVIEW

Scholars tried to clarify performance using a firm's entrepreneurial orientation and that it was important to study the connection between entrepreneurial orientation and performance (Chakravarty, 1986) and to explore the nature of entrepreneurial strategy-making and its relationship with strategy, environment, and performance (Dess, Lumpkin, & Covin, 1997). Covin and Slevin (1989, 1991) invented a model which connects both entrepreneurial orientation to organizational performance. It is discovered that when the entrepreneurial orientation was positively related to performance and that an entrepreneurial posture definitely positively related to firm performance. Entrepreneurial orientation will have effect on overall firm performance, such as return on equity/assets/sales (Miller & Bromiley, 1990). Zahra (1991) stated a positive relationship between entrepreneurial orientation and firm profitability and growth. Wiklund (1999) confirmed in his research that there was a positive relationship between entrepreneurial orientation and performance. Additional studies show a

positive correlation between entrepreneurial orientation and firm performance (Smart & Conan, 1994; Zahra & Covin, 1995) and that entrepreneurial orientation is an important predictor for business (Krauss, Frese, Friedrich, & Unger, 2005). The research on entrepreneurial orientation confirms the relationship between entrepreneurial orientation and results or performance (Barringer & Bluedon, 1999; Covin & Slevin, 1989; Miller, 1983; Wiklund 1999; Wiklund & Shepherd, 2003; Zahra, 1991; Zahra & Covin, 1995). The popular concept which is the operationalization of the entrepreneurial orientation is found on the work of Covin and Slevin (1989), Khandwalla (1977) and Miller and Friesen (1982). In building a unidimensional measure of a strategic orientation, Covin and Slevin (1989) studied the dimensions of entrepreneurial orientation which particularly concentrating on factors such as innovation, risk-taking, and pro-activeness and how it relates to performance (Kreiser, Marino & Weaver, 2002; Lumpkin & Dess, 1996, 2001). Lumpkin and Dess (1996) held that entrepreneurial orientation reflects the firm's operational style, concentrating on decision-making, methods and practices. A few researchers confirmed that a positive relationship exists between entrepreneurial orientation and high performance (Lumpkin & Dess, 1996; Covin & Slevin, 1991; Peters & Waterman, 1982; and Naman & Slevin, 1993). Ibeh (2003) found that entrepreneurial orientation is connected to better export performance, especially for small firms. Frese, Brantjes, and Hoorn (2002), conducted a cross sectional, interview-based study of small businesses in Namibia and they found a positive relationship between entrepreneurial orientation and success in terms of firm size and economic growth. Tang, Tang, Zhang, and Li (2007) in their study in the emerging region of China found that entrepreneurial orientation has a positive effect on firm performance. Gurbuz and Aykol (2009) tested the relationship between entrepreneurial orientation and Turkish small firm growth and confirm that entrepreneurial orientation affects firm growth. Chow (2006) conducted a study on the relationship between entrepreneurial orientation and firm performance in China and confirms that entrepreneurial orientation had a significant effect on firm profitability particularly for non-state firms.

The literature presented above leads to the development of the following hypothesis:-

Hypothesis H1: There will be a significant positive relationship between entrepreneurial orientation and business performance.

3. METHODOLOGY

3.1 SAMPLING AND DATA COLLECTION PROCEDURES

This study used a random sample of SMEs registered in Malaysia. Sekaran (2005) recommended that the expected samples for this research should be between 357 and 361 samples considering the population of 5,138 SMEs in the

services industry. The survey methods using postal and phone call interview were employed to collect data. Through postal services, 1000 questionnaires were sent to owner/managers of the SMEs throughout Malaysia. Out of 1000 questionnaires mailed to SME owner/managers throughout Malaysia, 391 answered questionnaires were collected, 16 questionnaires received via post mail were found to be incomplete where the respondents did not answer some of the questions. The incomplete questionnaires were rejected and only 375 questionnaires were accepted and used for further analysis.

3.2 MEASURES

3.2.1 Entrepreneurial Orientation

The Entrepreneurial Orientation Questionnaire (EOQ) developed by Covin and Slevin (1991) was used to measure the variables of entrepreneurial orientation of the SME. The respondents were asked to select the response that is closest to the degree of agreement with the respective question. The respondent must choose a position based from 1 to 5 range on the Likert scale format. Many researchers have tested and proven the reliability and validity of the scale (Covin & Slevin, 1991; Knight, 1997).

3.2.2 Performance

The performance of the firm is measured through a subjective approach. In this approach the performance of the firm is measured by the perception of the owner/managers providing responses to the Business Performance Questionnaire. The owner/managers were asked to state their firm's performance criteria such as sales growth, employment growth, market value growth, profitability and overall performance. This approach was chosen since there is no agreement among researchers on an appropriate measure of performance. Objective approach was not used in this study as collecting objective data is very difficult as the owner/managers are not willing to disclose the firm's information to outsiders.

4. ANALYSIS AND FINDINGS

4.1 RELIABILITY

The instruments used in this study were developed from prior research and previously tested for reliability. Reliability tests were conducted to determine the internal consistency of the EOQ and BP. As can be seen in Table 1, the Cronbach Alpha achieved for entrepreneurial orientation and performance are greater than 0.7 (Nunally, 1978). This shows that the questions used in the survey instruments possess high reliability and consistency.

Table 1 : Reliability Scores For Variable

Variables	No. of Items	Cronbach Alpha Value
Entrepreneurial Orientation	8	0.866
Business Performance	7	0.902

4.2 SAMPLE CHARACTERISTICS

The profile of the respondents is illustrated in Table 2. The respondents consisted of 73.6 percent male and 26.4 percent females, majority of which were in the age group of between 31-40 years (40.3 percent). Most of the respondents are married (55.5 percent). Majority of them had achieved a bachelor degree education 49.6 percent). Most of the respondents are in the ICT services sector and worked less than 5 years (60.3 percent). 45.6 percent of the firms have been established less than 5 years.

Table 2 : Profile of Respondents

Characteristics	Frequency	Percentage
<i>Gender</i>		
Male	276	73.6
Female	99	26.4
<i>Age</i>		
Below 30	145	38.7
31-40	151	40.3
41-50	51	13.6
51-60	28	7.4
<i>Marital Status</i>		
Married	208	55.5
Single	167	44.5
<i>Education Level</i>		
Doctorate/Master	50	13.3
Degree	186	49.6
Diploma	135	36.0
Higher Secondary Certificate	4	1.1
<i>Lengthy of Company Established</i>		
Less than 5 years	171	45.6
5-10 years	107	28.5
16-20 years	64	17.1
Above 20 years	0	0.0
<i>Number of Employees</i>		
Fewer than 5	101	26.9
6-20	215	57.3
21-50	33	8.8
51-100	26	6.9
100-200	0	0.0
<i>Company's Type</i>		
ICT services	152	40.5
Transportation services	67	17.8
Food supplies	101	26.9
Tourism	16	4.2
Finance etc	39	10.4
<i>Number of Years Worked</i>		
	226	60.3

Less than 5 years	99	26.4
6-10 years	4	1.1
11-15 years	34	9.1
16-20 years	12	3.2
21 and above		

4.3 TESTING OF HYPOTHESES

Regression analysis was used to test the relationship between entrepreneurial orientation and performance (H1). The regression analysis results in Table 3 indicates that entrepreneurial orientation is positively and significantly related to performance. This finding supports H1.

Table 3 : Regression Of Entrepreneurial Orientation

Variables	Adjusted R-square	Beta	F-value	Sig.
Entrepreneurial Orientation	0.181	0.428	82.934	.000*

Sig p < 0.001

5. DISCUSSION AND CONCLUSION

This study examines how entrepreneurial orientation can affect the business performance of small and medium enterprises in Malaysia. Significant conclusion from this study is that entrepreneurial orientation has a significant positive effect on business performance. It means that as the entrepreneurial orientation level increases, the degree of business performance also increases. It can be concluded that entrepreneurial orientation of SMEs owners/managers can influence the success and survival of the SMEs. Entrepreneurial orientation is important for SMEs to survive. A study on entrepreneurial orientation development could provide owner/managers with knowledge as to what type of development is necessary to enhance entrepreneurship skills and attributes to maintain business performances. Although this research confirmed the role entrepreneurial orientation as an important aspect of organizational strategy, additional research is needed to refine the understanding of this critical dimension. Future research is also needed to determine other measures of SMEs performance and integrate them in an entrepreneurial orientation model. Researchers can conduct research from other aspects of entrepreneurship skills such as financial management, communication, motivation of others, vision, and self-motivation. With these, firms can make a more appropriate strategy in winning the competition with other firms. For further research, researchers can extend this study on other industries such as manufacturing, constructions, agricultures and telecommunications.

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