

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Strategic Entrepreneurship and Performance of Small and Medium Enterprises of Malaysia

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Abstract:

The contribution of small and medium enterprises is significant to the Malaysian economy but lack of entrepreneurial competencies of their owners-managers has threatened their competitiveness and survival. Henceforth, this paper is an effort to offer a conceptual framework that examines the interplay of three factors known as entrepreneurial orientation, entrepreneurial values, and knowledge creation process on firm performance. This aim of this paper is to extend the Ireland, Hitt and Sirmon's (2003) strategic entrepreneurship model by investigating related literature and apply in the context of small and medium enterprises in Malaysia.

Keywords: *Entrepreneurial orientation, entrepreneurial values, firm performance, knowledge creation process, small and medium enterprises, strategic entrepreneurship*

1. Introduction

Many studies have revealed that small and medium enterprises are important in nurturing economic growth, creating jobs and decreasing poverty (Singh & Mahmood, 2014). In Malaysia, the contribution of small and medium enterprises (SMEs) is higher than large firms to the nation's economy (Economic Census, 2011). The SMEs constitute 97.3 percent of the total nation's business establishments and contribute 32.5 percent to the nation's gross domestic product in 2010 (Economic Census, 2011). As a result, close to 3.7 million jobs are created (Economic Census, 2011). The significant contribution by the SMEs is recognised by the Malaysian government with on-going initiatives under the Tenth Economic Transformation Programme to enhance the firm performance. The 500 million ringgit Commercialisation Innovation Fund and 100 million ringgit soft loans by Bank Simpanan Malaysia are a few of the government's initiatives (the Sunday, February 07, 2012).

The impacts of the dynamic and hostile business environment that the SMEs are experiencing are comparable to large firms or even larger. There are statistics to suggest that the survival rates for one-to-five year small businesses have been declining from a decade ago and 55 percent fail beyond five years (Lobel, 2014). Previous studies have shown that lack of entrepreneurial competencies, capabilities, and skills by owners (Kiggundu, 2002) and key managers (Longenecker, Simonetti, & Sharkey, 1999) have resulted in non-rational or little action undertaken while overseeing the business (Beaver & Jennings, 2005).

Extending the Ireland, Hitt, and Sirmon's (2003) SE model to the Malaysian small and medium enterprise field, this paper is able to close some knowledge gaps. The past SE models and the impact of factors upon firm performance are mostly case-study analyses (Yeow, 2014). There is little attempt to describe SE in the form of business exploration and exploitation activities that must be in equilibrium and concurrent. According to Burgelman and Grove (2007), entrepreneurship encompasses exploration of opportunities as well as applying exploitation to those revealed opportunities, whereas strategic management concerns with the implementation of exploitation to the opportunities in the main business as well as exploration of novel growth opportunities. In this study, the influences of both exploration and exploitation activities on firm performance of Malaysian SMEs are being investigated. Exploration is represented by entrepreneurial orientation (EO) and entrepreneurial value (EVs) whereas exploitation is represented by knowledge creation process (KCP).

This paper offers a few contributions to the literature. First, it extends the strategic entrepreneurship model by Ireland et al. (2003) in the context of SMEs. The model is built upon the past literature that is to combine, balance, and engage simultaneously for both exploration and exploitation activities although past study by March (1991) finds both act in an antagonistic manner. Second, it adds to the small and medium entrepreneurship literature by identifying firm characteristics that influence firm performance, where little attempt in the past has been seen for a developing country. Third, it extends the literature, on EO, EVs, and KCP underpinned by the resource-based view theory; in which this paper suggests that these key capabilities have an influence on the actions of owners-managers who are the key primary decision makers, as well as on firm performance.

2. Theory Development and Hypotheses

This section encompasses the related literature that identifies the hypotheses of the suggested conceptual framework that investigates the relationship of SE on firm performance.

2.1. Strategic Entrepreneurship

Ireland, Hitt, and Sirmon's (2003) conceptualised one of the pioneer models in the SE field. There are two important elements of the model. First element is the opportunity-seeking behaviour that is characterised by entrepreneurial leadership, entrepreneurial culture, and entrepreneurial mindset. Second element is the advantage-seeking behaviour that is characterised by developing innovation and managing resources strategically. The primary weakness of the model is for having a sequential rather than a joint of opportunity-seeking behaviour (entrepreneurship) and advantage-seeking behaviour (strategic management). Several scholars explained two elements must happen jointly which is not represented in Ireland et al.'s (2003) model (Ireland & Webb, 2007; Kyrgidou & Hughes, 2010; Schindehutte & Morris, 2009). This group of scholars has claimed that entrepreneurship and strategic management are manifested in the form of exploration and exploitation activities. Entrepreneurship enables exploration of opportunities and exploitation of revealed opportunities. Strategic management enables exploitation of existing opportunities and exploration of new growth opportunities (Burgelman & Grove, 2007; Schindehutte & Morris, 2009).

Hence in this study, it comprises formulation of hypotheses which relate to variables that represent exploration and exploitation activities. Exploration refers to things which are captured by terms such as search, variation, risk taking, experimentation, flexibility, discovery and innovation (March, 1991). In other words, to pursue explorative activities, a firm should be innovative, proactive and risk-taking, which can be accomplished through EO. Besides, owners-managers and other employees should have personal initiatives to seek creativeness and variation to achieve market leadership, which are embedded qualities in EVs. Exploitation, on the other hand, refers to things which are captured by terms such as refinement, choice, production, efficiency, selection, implementation, and execution (March, 1991). These activities and processes can be accomplished through KCP and according to Nonaka (1994), firms that practices KCP are more capable to realise exploitation activities in an efficient manner. In short, this paper investigates the influence of the EO, EVs, and KCP on firm performance in the context of the Malaysian small and medium entrepreneurship field.

2.2. EO and Firm Performance

Miller (1983) has regarded an entrepreneurial firm as a firm that produces product-market innovations; undertakes risky ventures; is ahead in its proactive innovations and is better than its competitors. Miller (1983) thereby has advocated *innovation, risk-taking, and proactiveness* as three primary elements of the EO construct. Despite there are other elements that are introduced into the EO concept such as aggressiveness by Covin and Slevin (1991), these three elements are the main features of the EO concept (Wiklund & Shepherd, 2005).

Innovation denotes the willingness to support creativity and experimentation (Lumpkin & Dess, 1996). Outcomes of *innovation* include introduction of new products/services, novelty, technological leadership, and research and development of new processes (Lumpkin & Dess, 1996).

Proactiveness refers to the propensities to forecast in a continuous manner in the extent of a potential market's requirements and take the required actions (Lumpkin & Dess, 1996). In turn, proactive firms enjoy the benefits of being the market pioneer (Lumpkin & Dess, 1996). Similarly, Covin and Slevin (1989) define that *proactiveness* is a tendency to take the initiative to compete aggressively with other firms.

Risk-taking refers to the willingness of a firm in investing substantial resources and engaging risky projects, despite uncertain results (Miller & Friesen, 1982). Scholars such as Burgelman and Grove, 2007 as well as Covin and Slevin (1989) have described the term - risk-taking as in the midst of uncertain situation, a business practices strategic action to manage committed risk.

In relation to this paper, EO would signify some of the features suggested in the model of SE that has been developed by Ireland et al. (2003). That is, the entrepreneurial state of mind or mindset does influence the way of thinking about business that focuses on and captures the benefits of uncertainty (McGrath & MacMillan, 2000). Uncertainty is a perceptual phenomenon derived from an inability to assign probabilities to future events, mainly due to shortage of information about cause/effect relationships (Hoskisson & Busenitz, 2002). Risk and ambiguity are part of organisational uncertainty (Priem, Love, & Shaffer, 2002). Firms capable of successfully managing uncertainty and risk, are likely to outperform others who are unable to do so (Brorstrom, 2002). Henceforth, Ireland et al. (2003) then introduced numerous entrepreneurial mindset constituents namely: recognition of entrepreneurial framework, real options logic, entrepreneurial alertness, and entrepreneurial opportunities. It is observable that the constituents aforementioned have close links with key EO dimensions.

Entrepreneurial leadership is another element in the model of SE by Ireland et al. (2003). Prior to Ireland et al.'s (2003) model, Covin and Slevin (2002) have proposed six imperatives of entrepreneurial leadership: nourish entrepreneurial capability, protect innovations threatening the current business model, make sense of opportunities, question the dominant logic, and revisit the "deceptively simple questions", and link entrepreneurship and strategic management. Based on the requirements above, entrepreneurial leadership is found to link with the following three elements that a firm has to be innovative, proactive and risk-taking, in other words, entrepreneurially orientated.

Majority of the published empirical studies have shown there is a positive relationship between EO and firm performance. Covin and Slevin (1986) have discovered a simple correlation of $r = .39$ ($p < .001$) between entrepreneurial posture and a multivariable measure of firm performance. Besides, other studies also have shown a positive relationship between entrepreneurial activities and firm performance (Smart & Conant, 1994; Zahra, 1991). In one of the longitudinal studies, it is revealed that there is a positive and

significant relationship between entrepreneurial activities and upon return on assets and return on sales (Zahra & Covin, 1995). According to Wiklund and Shepherd, (2005) each individual EO dimension (innovativeness, proactiveness and risk-taking) has a positive influence on firm performance. Similarly, further research evidences by Rauch, Wiklund, Lumpkin, and Frese (2009) have established that EO dimensions have equal leverage in influencing firm performance and as a result, could be treated to be the summation index for future research. Therefore, based on the literature above, the following hypothesis H1 is established:

- H1: EO is significantly related to performance of SMEs.

2.3. EVs and Firm Performance

According to Ireland and Webb (2007) in their discussion about exploration activities, firms seek to discover new opportunities, which come with risk and uncertainty. Firms thereby need an entrepreneurial culture that transforms uncertainty into constructive entrepreneurial behaviours rather than undesired stress and rigidity. In other words, entrepreneurial culture has relation with EO that is exhibited in the firm and by its workers but remained inadequate. In addition to EO, EVs are necessary because of the emphasis on the employees' dedication towards entrepreneurial behaviour particularly on exploration activities. EVs are intricate phenomena consisting of the need for achievement (McClelland, 1961), risk propensity through tolerance for ambiguity (Hisrich, Michael, & Dean, 2005), perseverance (Alsaaty, 2007), self efficacy (Rotter, 1966), and persuasiveness (Busenits & Lou, 1996).

There are a few earlier studies pertaining to the EVs in relation with SMEs' growth performance. These researchers have regarded EVs as variables analogous to the entrepreneur's characteristics (Kolvereid & Bullvage, 1996), personal traits (Adams & Hall, 1993), and entrepreneur's personality (Gibb & Davies, 1990). However, Janssen (2006) has disputed that variables pertaining to an entrepreneur's personality or traits propagated by Gibb and Davies (1990), are not significant predictors of business growth performance. Other researchers (Alsaaty, 2007; Hisrich, Michael & Dean, 2005; Ireland & Webb, 2007) have also visualised EVs instead of personality traits, to be acceptable variables that influences the growth performance of SMEs. Also Drucker (1986) has linked an entrepreneur's success with his or her behaviour as well as personal traits but without adequate explanation especially on the personality part. The need of achievement, creativity and innovation (Schumpeter, 1934; Sombart, 1950); achievement orientation, self responsibility, hardworking, and perseverance (Birley & Muzyka, 1997), have been established to have an influence on one's desire to seek accomplishment on his or her work performance.

On the other hand, Tambunan (1992, 1994) has explained albeit unemployment and low education level are key factors to inspire people to become entrepreneurs, these are meant for business entry only but does not have a significant influence on firm growth performance. Likewise, other factors such as generating income (Keeble & Wever, 1987); the owner/manager's value as well as self-employment (Gibb, 1996); unemployment and profits (Tervo & Niitykangas, 1994); wealth creation to family, self esteem, and aspiration to be a business owner (Nelson & Mwaura, 1997); as well as enterprise's growth (Kantilal, 1994), only encourage people to become business owners but are not desired predictor(s) on growth performance.

However, Ray (1986) has clarified though risk taking and self-esteem are significant predictors for successful business, but the scholar has disputed that very low self-esteem is an obstacle to start a business. Similarly, Gibb and Davies (1990) have agreed that entrepreneurial characteristics are important factors to the growth of business; while Gill (1985) has disputed that hindrances due to psychology reasons for example the fear factor for initiating a business venture are impediments to business growth.

Bandura (1977) has argued the most important EVs for business success are goal orientedness and self efficacy. The reason is that both these variables form a key linkage between intention and action. As goals help to drive attention and effort towards activities which are related to the goal and disregard activities which are not related, this means there is influence on the firm performance and firm behaviour in a directive role. Rauch and Frese (2000) also supported this argument by highlighting the value of goal orientedness and self efficacy which become stronger amongst committed individuals. In other words, committed individuals pay significant concern on the outcome (how important is it to succeed) and how closely their success is within their anticipation (self-efficacy) as this helps to reduce pessimistic inclination and develop a mental map towards success. One can have high self-efficacy pertaining to a task but it may be low when it comes to another task. This phenomenon can be explained because EVs are usually influenced by experience in a given task or venture. A recent research by Abaho (2013) about EVs of university students in Uganda, has concluded that EV framework consists of visionary, self-efficacy, economic frugality, leadership orientation, high levels of networking behaviour, information seeking, and cosmopolitanism.

Clark, Berkeley, and Steuer (2001) have declared that the attitude and behaviours of entrepreneurs can either influence or impede the growth of SMEs. In their view, a business grows if the owners' interests are to sustain their firms at a comfortable level. Kolvereid and Bullvage (1996) have indicated an entrepreneurial individual is regarded to be core factor in the journey of growth. An entrepreneur's action is the key to company's growth (Pendelieu, 1996; Petrakis, 1997). Similarly, Johnson (1993) has established that entrepreneurial positive behaviours contribute to start-ups, survival, and growth of firms.

The main observation from the literature above is that when firms developed EVs favouring exploration, these firms are progressive, and innovative. A firm that is likely to seek novel opportunities is likely to improve its earnings and sustain its growth. Hence, the following hypothesis is formulated for this paper:

- H2: EVs are significantly related to performance of SMEs.

Together both H1 and H2 constitute the exploration activities of the conceptual framework, Figure 1

2.4. KCP and Firm Performance

Exploitation refers to refinement, choice, production, efficiency, selection, implementation, and execution of firm activities (March, 1991). Kale, Singh, and Perlmutter (2000) have discovered that through alliances and networks; firms progressively develop knowledge that is vital for innovation (i.e., exploration) and for implementation (i.e., exploitation) of corporate entrepreneurship strategies. In this paper, this discovery is to be applied in establishing SE in SMEs. According to Hitt, Sexton, Ireland and Camp (2002), the experience (e.g., tacit knowledge) of managers together with the internal and external social networks may offer essential inputs to bisociation which is the combination of two unrelated sets of information and resources. Smith and Di Gregorio (2002) have argued that entrepreneurial firms can employ bisociation to generate creative action. Thus, both individual and organisational aspects do have an influence on the entrepreneurial and the strategic activities that are engaged by firms. In addition, Kyrgidou and Hughes (2010) have emphasised that organisational learning is an important factor for adding into the SE model since organisational learning is associated with enhancing firm activities related to exploitation.

According to von Krogh, Ichijo, and Nonaka (2000), knowledge is a key intangible resource that assists firms to identify and exploit opportunities that would result in competitive advantages. Ireland and Webb (2007) have indicated that the tacit knowledge held by employees involved with exploitation activities is usually adequate to guide a firm's incremental innovation. However, firms do not always possess all the required resources (especially critical knowledge) needed to exploit global markets in a timely manner. Thus, exploitation activities must include KCP, and this paper intends to discuss using the model related to KCP that is derived from Nonaka's (1994) model that consists of socialisation, externalisation, combination, and internalisation or SECI processes.

According to Nonaka (1994), the dynamic interactivity between explicit and tacit knowledge results in knowledge creation through SECI processes. The process of socialisation aims in garnering tacit knowledge of individuals. According to Nonaka, Toyama and Konno (2000), frequent social perception and interaction assist sharing experiences and mentality modes among employees. According to Becerra-Fernandez and Sabherwal, (2001), the socialisation process enables employees to exchange various forms of knowledge in performing a firm's tasks and problem solving. According to Nonaka, Toyama, and Nagata (2000), the socialisation process in turn reduces communicating obstacles among employees. The socialisation process enables firms to converge and intensify tacit knowledge for collective learning, thereby improving knowledge database in firms (Nonaka & Takeuchi, 1995; Nonaka, Toyama, & Nagata, 2000).

The comprehension of task becomes better when the employees' tacit knowhow is transformed into explicit knowledge. Externalisation process is needed to facilitate individuals into articulating their ideas and reflections (tacit knowledge) into constructive concepts and views (explicit knowledge), often useful in novel product development as well as innovation in firms. The generated novel explicit knowledge would then be integrated and circulated within the team of employees and to other levels of organisation (Nonaka, Toyama, & Konno, 2000; Nonaka & Takeuchi, 1995).

According to Nonaka, Toyama and Nagata, (2000) firms are able to employ combination process in creating novel knowledge with present knowledge, thereby producing novel knowledge application. Novel knowledge and expertise would increase the company's capability in innovating novel products and services, or enhance the efficiency of current ones, which leads to minimising costs and reducing redundancies (Gold, Maholtra, & Segars, 2001; Grant, 1996).

According to Nonaka, Toyama, and Konno (2000), with internalisation process, knowledge is then transformed into the firm's database and is actualised into operational practices, example production procedures and new product development processes. Firms that are able to utilise the human capital in transferring tacit knowledge among employees, are able to further innovate and generate novel procedures (Kogut & Zander, 2003; Lee & Choi, 2003; Nonaka, Toyama & Nagata, 2000). In short, the SECI model facilitates the conversion of knowledge into valuable assets in business thereby contributes towards innovative product introduction or process improvement (Lee & Choi, 2003; Nonaka, Toyama & Konno, 2000).

Based on the literature above, there are significant findings where the creation of knowledge based on the SECI model has been established in its influence to trigger a novel spiralling effect on knowledge creation. The interactive communal societies involved in transferring and utilising embedded knowledge gathered from various stakeholders of a firm who include customers, suppliers, distributors, and competitors (Nonaka, 1994; Nonaka, Toyama & Konno, 2000). This knowledge transformation allows firms to integrate emerging-knowledge with its strategic development (Nonaka, 1994); an important criterion if firms want to produce new product faster and cheaper than their competitors (Droge, Claycomb, & Germain, 2003). By doing so, this knowledge transformation improves the chances to enhance a firm's competency and attain a sustainable competitive advantage (Chia, 2003; Nonaka, Toyama, & Nagata, 2000).

Based on the literature above, it has been established that firms which exhibit superior knowledge creation through SECI processes, these firms are found to perform exploitation activities in an efficient manner. Besides, these firms have demonstrated firm growth and profit enhancement. It can therefore be proposed KCP is a predictor of performance, with the following hypothesis H3:

- H3: KCP is significantly related to performance of SMEs.

H3 constitutes firms' exploitation activities, illustrated in Figure 1

3. Conceptual Framework

Based on the review of the related literature in the previous sections, the conceptual framework of this study conceptualises the relationship among EO, EVs, and KCP on firm performance for SMEs in Malaysia. The use of these success factors could constitute a source of a sustainable competitive edge because of the productive behaviours that these SME entrepreneurs exhibit (Foss, 2011),

which leads to better firm performance (Barney & Delwyn, 2007). See Figure 1 that displays three hypotheses H1 to H3 that the conceptual framework proposes to investigate in future research.

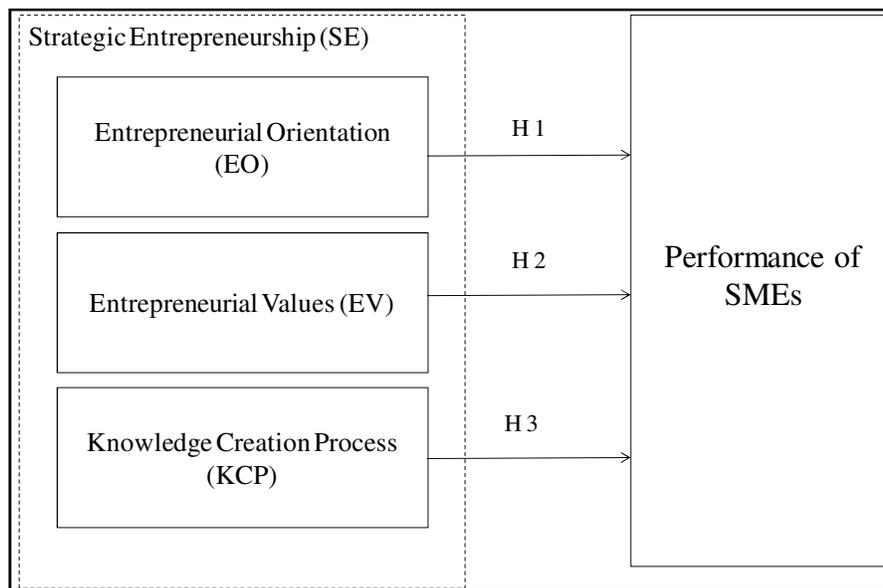


Figure 1: The conceptual framework displaying the impact of entrepreneurial orientation, entrepreneurial values, and knowledge creation process on firm performance

4. Conclusion and Recommendations

In conclusion, this study has provided a conceptual framework that demonstrates the relationship among EO, EVs, and KCP on performance. The main contribution to the entrepreneurs' decision-making theory is that this paper has recommended a framework that constitutes three proposed success factors on the firm performance for SMEs in Malaysia. It is an accepted fact that the interplay of all the four constructs have not been fully unified and tested in the Malaysian SME context. However, the fact remains that this study has its limitations. First, because it is in dire need of further verification by collecting data from the SMEs to test the conceptual framework and further examined the three hypothesised relationships. Second, the framework is more focused on SMEs overall, and may be restricted to populate findings to other service sectors that are heterogeneous in nature such as the banking, accommodation, foodservice, and insurance industries. Third, the attention emphasises towards gathering SMEs owners-managers' business perceptions, rather than employees' behavioural parameters, despite the notion that employees are the firms' face and in which a firm's success is dependent on employees' abilities too (Sachdeva, 2015).

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