Faculty of Economics and Business

ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE - THE ROLE OF INTANGIBLE STRATEGIC RESOURCES: AN EMPIRICAL STUDY ON SMEs IN SARAWAK

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DEDICATION

I dedicate this work to my late parents, their legacy of diligence and intelligence are seeds of my academic achievement.
Acknowledgement

I would like to express my sincere gratitude to my chief supervisor, Associate Professor Dr. Ricardo Baba, for his guidance and devotion to supervising this thesis. His attention to detail and willingness to spend his valuable time discussing the many problems that I encountered have been instrumental in my completing the thesis.

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Abstract

The central theme of this study was that sustainable superior business performance is achievable. This study advocates that with the presence of intangible strategic resources (ISRs), small businesses such as SMEs are able to sustain their business success. The availability of external assistances or non-strategic resources, such as government provided capital funds and training programs can facilitate SME’s business but not an assurance for its success and sustainability. A number of legendary riches start from scratch with nothing but self-reliance have shown how their businesses prosper and sustain by leveraging on intangible strategic resources, such as hard-work, thrift, and entrepreneurial values. Intangible strategic resources are a firm’s non-observable resources which include individual’s perceptions, leadership skill, personal values, company reputation, product reputation, employee knowhow and organizational culture, and are capable of generating and sustaining high level economic rents. Strategic resources are characterized as being simultaneously valuable, rare, imperfectly imitable and non-substitutable.

This study attempts to construct a model based on two concepts the Resources-Based View (RBV) and Entrepreneurial Orientation (EO), with a focus on explaining how sustainable superior business performance is achievable through enhancing a firm’s internal strengths or capabilities. Specifically, intangible strategic resources (ISRs) as driver of performance and mechanism of sustainability, when leveraged well will lead to higher firm-level EO and successful business performance.
The results, based on the data drawn from 267 SMEs randomly selected from Sarawak, supported the hypothesis that there was an empirical positive relationship between firm-level entrepreneurial orientation (EO) and performance of the business (BP). Also supported are: (1) Hypothesis that owner-manager’s perception of resources availability (PRA) is significantly and positively related to firm-level EO; and (2) Hypothesis that organizational culture of adhocracy (AOC) positively influences the firm-level EO, Unexpectedly, hypotheses of transformational leadership skill (TLS) and individualistic personal values (IPV) are not empirically supported – are statistically insignificant and negatively related to firm-level EO.

Finally, this study is significant: (1) in its capability to explain how sustainable superior business performance is achievable - in an attempt to clarify why and how some firms are successful and sustainable while others are not; (2) in its contributions in three aspects – theoretical, managerial, and methodological; and (3) in extending the existing literature of EO and business performance of SMEs in Sarawak.
Abstrak


Kajian ini cuba membina satu model yang berdasarkan dua konsep iaitu Resource-based View (RBV) dan Entrepreneurial Orientation (EO) dengan tujuan menjelaskan bagaimana melestarikan prestasi perniagaan melalui kekuatan dalaman atau kecekapan firma. Contohnya apabila sumber-sumber strategik intangible digunakan dengan baik
akan membawa EO firma kepada paras yang lebih tinggi dan akhirnya pencapaian perniagaan yang lebih baik (demikekal).


Akhirnya, kajian ini adalah sangat penting sebab: (1) ianya dapat menjelaskan mengapa dan bagaimana sesetengah firma-firma berjaya dan dapat mengekalkan kejayaan mereka dan ada yang lain tidak; (2) ianya menyumbang kepada tiga aspek iaitu pengurusan, teoritikal, dan methodological; dan (3) ia juga memperluaskan literature EO dan prestasi perniagaan SMEs di Sarawak.
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Chapter 1

INTRODUCTION

1.1 Introduction

The Economic Transformation Plan (ETP) that was launched in 2010, in conjunction with the 10th Malaysian Plan (10 MP), aims to realize Malaysia as a high-income nation by 2020 (Economic Report Malaysia, 2010/2011). In the blueprint, it was argued that the foundation of any productive high-income nation lies in a globally competitive, productive, creative and innovative SME community (Economic Report Malaysia, 2010/2011). The report further acknowledges the important role of SMEs in spear-heading the ETP. The plan also sets an expectation that one million new businesses will be created in order to support the development of Malaysia as a high-income nation, and highlights ways to implement change to improve the nation’s competitiveness and productivity (10 MP). It has been emphasized in the report that the responsibility to achieve these missions lies with the business communities and their commitment (Economic Report Malaysia, 2010/2011).

Small and medium-sized enterprises (SMEs) have been recognized as an important strategic sector in Malaysia for generating high economic growth, reducing unemployment and inequalities along ethnic groups as well as eradicating poverty (SME Corp, 2009). The Malaysian economy relies heavily on the contribution of this sector (Ariff & Abubakar, 2003; Poon, 2004). Recent statistics show that SMEs comprise of 99.2% of all business establishments, employing 56.4% of total
employees, and contributing 32% to GDP and 19% of total exports (Statistic Department, 2011).

The Malaysian Government, recognizing the important roles of the SMEs sector in achieving balanced economic growth, equitable regional income distribution and increasing employment and productivity levels, has adopted various policies for the development of SMEs (Abdullah, 1999; Hashim & Wafa, 2002). As a result, there are currently 15 ministries and more than 60 agencies involved in stimulating the development and growth of SMEs. In addition, over the years, substantial amount of resources have been committed to a variety of assistance programs designed to encourage development and growth of the sector (Ariff & Abubakar, 2003).

1.2 Background of the Study

In the context of SMEs development, there are two contrasting views with regard to what contributes to success and failure of SMEs in Malaysia. Firstly, the assistance-view argued that the slow progress of the sector is mainly due to the inefficiencies in monitoring and distributing assistance programs to the SMEs (Ariff & Abubakar, 2003). For example, studies have noted that despite substantial investment in providing support programs to SMEs, the impact has been found to be minimal (Hashim, 2005; Hashim, 2006). Yet, another set of studies have shown that many SMEs in Malaysia have failed or gone into bankruptcy because of insufficient financial assistance to assist them during difficult times (Hashim, 2000). Research also revealed that a large proportion of SMEs have neither access to nor the
awareness of the support programs (e.g., Abdullah, 1999; Hashim, 2006). In monitoring the SMEs development, the government acknowledged the loose coordination among various ministries and agencies and the poor design of various assistance programs as one of the main contributors to the inefficiencies of the assistance programs for SMEs.

In the context of research, it has been noted that there is also a serious lack of studies that are focused to empirically test the viability of these support programs for the SMEs (Hashim, 2006 p.51). Further, it is interesting to note that a number of studies had also suggested measures to rectify the situation. A remedial policy was formulated in 1996, resulting in the Government establishing the SMIDEC (Small and Medium Industry Development Corporation, now known as SME Corp) to better co-ordinate support programs provided by all government agencies with the objective of continuing and better serving the SME community.

Secondly, the internal strength-view argued that there are reports on SMEs in Malaysia which have demonstrated their ability to venture into new business and survived going through major economic crisis without the government’s supports (e.g., Abdullah, 1999). These successful SMEs are characterized by a high degree of resilience and competitiveness (Barney, 1991). These studies, somehow, contradicted perception that external resources such as government support enhance the firm’s competitiveness or competitive advantage (Hashim, 2007 p.150). The success of these SMEs, perhaps, can be explained by findings suggested by Covin & Slevin (1989), Zahra & Covin, (1995), Gupta & Pandit (2010) and Davina & Douglas (2012). Their findings concurred that firms attain higher levels of entrepreneurial orientation
(EO) in less favorable environments (beyond the comfortable zone). The concept of EO claims that a relatively high level of risky, proactive, and innovative behaviors lead to improved firm performance (Covin & Slevin, 1989). The findings also suggested that during good-times, firms do not need to compete for opportunities and resources; and any SME would do well regardless of the management strategies. In Kao’s (1997) words, “when winds of good-time blow, a turkey can also fly”. The above theoretical literature, suggested that firms capitalizing on their own internal strength/unique resources rather than external support, strengthen business performance, particularly in hostile environments. This may partially explain why the government’s support programs have not been fruitful (Hashim, 2000; Abdullah, 1999). External supports eroded the entrepreneurial spirit of those SMEs - over reliance. This is supported by Hashim (2000) who observed that a firm’s strategic assets inclusive of EO, contribute to business resilience and competitiveness among Malaysian SMEs.

However, there has been a lack of empirical studies to determine whether SMEs can achieve sustainable superior business performance by capitalizing on the firm’s internal strengths. The existing EO models were limited in explaining business performance. The models do not explain how superior performance is sustainable. Hence, this research attempts to bridge these gaps in the literature.

This thesis was therefore designed to investigate the relationships between owner-managers’ perception of the following factors: resources availability (PRA), transformational leadership skills (TLS), individualistic personal values (IPV), and adhocracy organizational culture (AOC) with entrepreneurial orientation (EO) of
SMEs, in achieving superior and sustainable business performance (BP). Specifically, PRA, TLS, IPV, and AOC are hypothesized to influence, directly upon EO and indirectly on BP. Further, EO is hypothesized as a significant predictor of BP.

This chapter begins with the problem statement leading to the research questions and objectives of study. It highlights the significance of the study, the research contributions and the definition of the relevant key concepts. The outline of the thesis is presented at the end of the chapter.

1.3 Problem Statement

According to the Companies Commission of Malaysia (CCM), in the year between 2010 and 2011, 180,000 businesses in Malaysia stopped operation for various reasons (Sin Chew Daily, Dec., 2011). This statistics, when translated into monetary value is a huge sum of losses to the nation’s economy. It also signified the lack of business resilience and competitiveness in these companies (Tan, 2011; Whitehorn, 2011; McCourt, 2013).

The failing businesses generally exhibit low degree of EO and are vulnerable to environmental changes (Hashim, 2000). These characteristics are further manifested by weakening competitiveness, disillusioned with the diminishing performance, and then experience severe financial trouble, and eventually may leave the industry (Thornhill & Amit, 2003; Hashim, 2007). In addition, the overwhelming support programs and misconception about financial prescriptions, prone many SMEs to overlook and misjudge the importance of a predisposition towards firm’s internal
resources such as leader skills, personal values, perception of resources availability, organizational culture, hard work, and thrift. The application of these specific strategic resources is often cited as holding a potential for promoting sustainable competitive advantage (Barney, 1991; Carmeli, 2004; Eshima & Anderson, 2013; Harris & Moffat, 2013). The lack of access to or availability of strategic resources can be seen as perhaps the most important constraint of entrepreneurial activities, growth and survival (Collins & Hansen, 2011; Tan, 2011).

On the other hand, the performing SMEs exhibit high degree of EO, resilience and competitiveness, sustainable and high performance (Hashim, 2000; Whitehorn, 2011; McCourt, 2013). This phenomenon raises a question and deserves an in-depth investigation - Why and How some firms/SMEs are successful and sustainable while others are not? In short, is sustainable superior business performance achievable? A comprehensive knowledge pertaining to this issue can only be built if the possible influence of intangible strategic resources (ISRs) on firm-level EO and subsequently on firm performance can be empirically established for the SMEs in Malaysia. This requires investigating the issue from the perspective of internal resources, the source of sustainable competitive advantage (Barney, 1991). ISR is a term referring to firm-controlled internal resource which is characterized as being simultaneously unobservable (Michalisin et al., 1997); and valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991). The concept of EO and the RBV are two key frameworks that grounded previous empirical studies exploring the impact of resources on performance (Barney, 1986; Shepherd & Wiklund, 2005; Chang, 2007).
Though, previous studies have attempted to identify strategic resources that can contribute towards strengthening a firm’s internal strengths (or resilience), competitiveness and high business performance, few if not none has categorically identified strategic resources that can sustain superior business performance of SMEs (Michalisin *et al*., 1997; Carmeli, 2004). In short, the literature identifies many frameworks pertaining to a firm’s success, but nothing on how these successful firms can sustain their success. In this regard, hopefully a new model, the ISRs-EO-BP framework will enable sustainability. The study conceptualized that SMEs that capitalize on ISRs have higher firm-level EO and perform better. Therefore, the challenge remains to determine whether this claim is true.

1.4 Research Questions

This thesis attempts to investigate several issues raised in relation to the role of ISRs in influencing firm-level EO, thus explaining superior and sustainable business performance as applied to the context of SMEs in Sarawak. Accordingly, the following research questions were investigated:

(i) Does the perception of resource availability (PRA) significantly and positively affect firm-level EO in the context of SMEs in Sarawak?

(ii) Does the transformational leadership skill (TLS) significantly and positively affect firm-level EO in the context of SMEs in Sarawak?

(iii) Does the individualistic personal values (IPV) significantly and positively affect firm-level EO in the context of SMEs in Sarawak?
(iv) Does the adhocracy organizational culture (AOC) significantly and positively affect firm-level EO in the context of SMEs in Sarawak?

(v) Does firm-level entrepreneurial orientation (EO) significantly and positively affect business performance (BP) in the context of SMEs in Sarawak?

1.5 Research Objectives

The fundamental objective of this study was to seek confirmation that superior and sustainable business performance is achievable. The existing EO models are limited to explaining superior performance. They do not explain how superior performance is sustainable. Therefore, the general objectives of the study were as follows:

(i) To develop a new entrepreneurship orientation model capable of explaining how sustainable superior business performance is achievable.

(ii) To demonstrate that the proposed/new model is good enough to be acceptable as useful.

(iii) To explore the role of ISRs in influencing the degree of firm-level EO in the context of SMEs in Sarawak.

The specific objectives were:

(i) To determine perception of resources availability (PRA) is significantly and positively related to EO.

(ii) To determine transformational leadership skill (TLS) is significantly and
positively related to EO.

(iii) To determine individualistic personal values (IPV) is significantly and positively related to EO.

(iv) To determine adhocracy organizational culture (AOC) is significantly and positively related to EO.

(v) To determine entrepreneurial orientation (EO) is significantly and positively related to business performance (BP).

1.6 Significance of the Study

This study has significant contributions in terms of model/theoretical development and managerial practice. Firstly, the study presents a new model of EO, suggesting that the intangible strategic resources controlled by a firm, if exploited, can be a source of internal strength. The model is expected to be capable of explaining why and how some firms are successful and sustainable while others are not.

Secondly, while previous studies have been mainly on large corporations in western and developed countries, the present study focuses on small firm’s EO from an ASEAN perspective and evaluates the impact of indigenous factors in influencing the degree of EO of the SMEs, thus business performance. Therefore, by investigating the roles of ISRs which affect firm-level EO, this study bridges the literature gap and contributes by adding to the knowledge base of factors facilitating entrepreneurial activities and subsequently, sustainable superior performance. The