



Faculty of Economics and Business,
Universiti Malaysia Sarawak (UNIMAS)
94300 Kota Samarahan,
Sarawak

FEB Working Paper Series No. 1113

**Entrepreneurial orientation of SMEs
in Labuan and its effects on performance**

Ricardo Baba
Sunmuglvadivu Elumalai

Working Paper Series No. 1113

November 2011

The FEB Working Papers describe research in progress by the author(s) and are published to elicit comments and further debate. The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of Faculty of Economics and Business (FEB) or Universiti Malaysia Sarawak (UNIMAS). Working papers published under this Series may subsequently be published elsewhere.

Entrepreneurial orientation of SMEs in Labuan and its effects on performance

Ricardo Baba
Sunmuglvadivu Elumalai

ABSTRACT

Entrepreneurial orientation (EO) has been defined as the measure of firm level entrepreneurship. EO has been linked with organizational performance, whereby the higher the EO, the higher the level of performance. The EO is deemed as a multidimensional construct encompassing five dimensions e.g. autonomy, risk taking, innovation, pro-activeness, and competitive aggressiveness. Thus this study investigates the relationship between EO dimension and organizational performance indicators e.g. product performance, customer performance and sales growth among SMEs in Labuan. A total of 101 SMEs were selected and these establishments were involved in service related business, retail business and also wholesale. The study concludes that risk taking, innovation, pro-activeness and competitive aggressiveness have significant positive relationship with organizational performance. Meanwhile no relationship is found between autonomy and SME performance. Finally based on the various strength of relationship exhibited by the EO dimensions, this study also concludes that EO is a multi-dimensional construct and that these dimensions vary independently.

Key Words: Entrepreneurial Orientation (EO), Small and Medium Enterprise (SME),
Organizational Performance,

1. Introduction

Defining entrepreneurship is a magnanimous task, and it is not surprising that many who seek to define it had abandoned it half-way (Gartner, 1990), and definition is based on each particular study's own discretion (Brockhaus, 1987). According to Lumpkin & Dess (1996), entrepreneurship is defined as 'new entry', which provides information on 'what new entry consists of'. Meanwhile entrepreneurial orientation (EO) is defined as the concept which explains 'how a new entry is undertaken', it is a reflection of how a firm operates. A measure of EO is said to be measure of entrepreneurship at firm level (Stetz, 2000, Knight, 1997, Morris & Sexton, 1996). This involves measure of processes, decision making styles and method which depicts a firm's entrepreneurship (Lumpkin & Dess, 1996). Starting with Khandwalla (1977) who studied EO construct, then Miller (1983), who introduced the three dimensions of EO as pro-activeness, risk taking and innovation, there has been vast amount of research in this area