

Fostering Small and Medium Enterprises through Entrepreneurial Orientation and Strategic Improvisation

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Abstract

The purpose of this research is to establish the relationships between entrepreneurial orientation (EO), strategic improvisation and performance of small-medium enterprises (SMEs). Data were collected through mail survey questionnaires which were distributed among SME owners/managers who were randomly selected from a sampling frame of registered SMEs. This study employed the Partial Least Square (PLS) path modelling to estimate the hypothesized research model by using smart PLS 3.0. PLS was chosen because it maximizes the variance explained in the dependent variable. It also does not require multivariate normality of the data. A total of 140 usable responses were received. The study found that significant relationships exist between EO and performance and also between strategic improvisation and performance.

Keywords: Entrepreneurial orientation, strategic improvisation, performance, small and medium enterprises

1. Introduction

The strategic significance of the small and medium enterprises (SMEs) in economic development has remained well recognized. SMEs are the accelerators of growth performance of many economies, create employment opportunities, and stimulate entrepreneurial capabilities and innovation (Herath & Mahmood, 2014). However, SMEs are also susceptible to the dynamic and hostile economic changes. Studies have shown that many SMEs failed due to their inability to cope with this uncertainty in the environment. One of the key issues highlighted was the shortage of entrepreneurial competencies, capabilities and skills among the key founder-owners of the firms (Abd Aziz & Mahmood, 2011; Kiggundu, 2002). Therefore SMEs need to be more resilient in this business environment where competitive rivalry has multiplied in its magnitude. These include the need to refigure their strategic orientation in the form of entrepreneurial orientation and strategic improvisation in order to benefit from the rapid change and to gain and maintain competitive advantage. Thus the purpose of this study is to investigate the effects of entrepreneurial orientation and strategic improvisation on the performance of SMEs.

2. Literature Review

2.1 Entrepreneurial Orientation and Performance

Entrepreneurial orientation (EO) is considered as a strategic element which covers the entrepreneurial aspects of the firm (Covin & Slevin, 1991; Wiklund & Shepherd, 2005). According to Covin and Slevin (1991) EO is comprised of proactiveness, innovativeness and risk taking. Proactiveness is the obtaining of intelligence and information about competitors and customers, innovativeness is redirecting and allocating of resources to devise a strategic response, and in the implementation of the responses, involves some degree of risk and uncertainty. Lumpkin and Dess (1996) added two more dimensions; competitiveness and autonomy, and they posited that these dimensions might vary independently

depending on the organizational context.

Past studies have revealed that positive relationship exists between entrepreneurial orientation and high performance. Ibeh (2004) found that EO is associated to better export performance especially for small firms, while Frese, Brantjes and Hoorn (2002) found a positive relationship between EO and success in terms of firm size and economic growth. Chow (2006) and Wang (2008) confirmed the significant positive relationship between EO and performance among Chinese firms, and Frishammar and Horte (2007) in their study in Sweden proved significant effect of EO on product performance. Meanwhile Liu, Luo and Shi (2003) revealed that a higher level EO increases the competitive advantage of state-owned Chinese companies, and Jia, Wang, Zhao and Yu (2013) found EO improves performance and that the positive influence came mainly through dimensions which are innovation and antecedence. In addition, Hult, Hurley and Knight (2004) found positive relationship between EO innovation and performance in large scale industrial firms.

Studies among SMEs were also conducted. According to Wiklund and Shepherd (2005) majority of SMEs do not adopt entrepreneurial orientation and mainly depend on intuition to make strategic decisions. However Wiklund (1999) also argued that SMEs that adhere to EO can respond more significantly to emerging market opportunities compared to large firms which do not have that quickness and flexibility. In the same vein, positive relationship between EO and performance in hostile business environment was found in SMEs in Bangladesh (Hoq & Chauhan, 2011) and parallel finding was reported among Sri Lankan SMEs (Fauzul, Takenouchi & Yukiko, 2010; Herath & Mahmood, 2014). Zhang and Zhang (2012) also found positive effect of EO on SME performance in North-east of China A study conducted among SMEs in Malaysia found significant relationship between EO and performance (Abd Aziz, Mahmood & Abdullah, 2013) while positive relationship was confirmed on SMEs in Nigeria (Shehu & Mahmood, 2014). As stressed by Dess, Lumpkin and Covin (1997) claimed during uncertainty, firm's strategic orientation can support the firm to compete and survive to lead entrepreneur firm to become more successful and successes better growth. Therefore based on the above discussion, the following hypothesis is posited:

H1: There is significant and positive relationship between entrepreneurial orientation and performance of SMEs in Malaysia.

2.2 Strategic Improvisation and Performance

According to McKnight and Bontis (2002), improvisation can be described as being able to instinctively merge knowledge, processes and structure in real time, in order to creatively solve problems by being grounded in the realities of the moment. It is a spontaneous action guided by intuition, produced or carried out on the spur of the moment instead of going through intentional thought and evaluation processes. Strategic improvisation acts as the best strategy to cope with flexibility and provide the organization with capabilities to adapt to changing environmental demands rapidly and effortlessly. Improvisation is also seen as a new paradigm for strategic choice (Eisenhardt, 1997), an important construct for a firm's strategic performance (Moorman & Miner, 1998), a strategy of emergent learning (Mintzberg, 1994), and a key part in organizational learning and strategic renewal (Vera & Crossan, 2005).

Past studies on the relationship between improvisation and performance were mixed or unclear (Crossan et al., 2005; Arshad & Hughes, 2009). Vera and Crossan (2005) showed only indirect relationship between improvisation and performance through some moderating factors, while other studies focused on new product success teams and new product development as the main performance measures (Akgun, Lynn & Byrne, 2006; Leybourne & Sadler-Smith, 2006; Vera & Crossan, 2005; Akgun & Lynn, 2002. Leybourne and Sadler-Smith (2006) found no statistically significant relationship between improvisation and satisfactory project outcomes when they calculated the impact of improvisation as mediator between intuition and project success. Other similar studies included those done by Hmieleski and Corbett (2008) who focused on the relationship between improvisation behaviour (firm founders) with performance (start up and individual level of satisfaction), Hmieleski, Corbett and Baron (2013) on improvisational behavior of entrepreneurs and performance, and Arshad and Hughes (2009) and Arshad (2011) who investigated the direct impact of improvisation on firm performance. Nonetheless, there is still a paucity of studies that examine the direct relationship between strategic improvisation and firm performance as a whole. Thus the following hypothesis:

H2: There is significant and positive relationship between strategic improvisation and performance of SMEs in Malaysia.

2.3 Research Framework

Figure 1 below exemplifies the framework that hypothesizes the relationships between entrepreneurial orientation,

strategic improvisation and performance. This framework is underpinned by the Resource-based Theory that seeks to explain why some firms are able to gain and sustain competitive advantage. The theory claimed that firms possess resources that are valuable and rare which enable them to achieve competitive advantage and that can lead to superior long-term performance (Barney, 2002). Thus entrepreneurial orientation and strategic improvisation can be conceived as a form of intangible resources within the firms that may be the value driver in achieving competitive advantage.

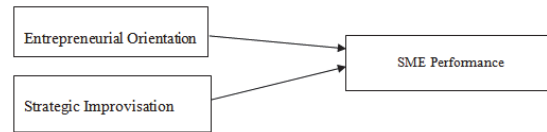


Figure 1. Proposed Research Framework

3. Research Methodology

This study employed quantitative research method and the instrument used to collect the data was survey questionnaires. The target population was the SMEs in Malaysia and owner/managers were selected as respondents to represent their firms. Owner/managers were selected because they are the key informants of the firms' operations and strategic decisions, and their views often represent the views of the firms. A total of 140 useable responses were received from 500 questionnaires distributed randomly to SME owner/managers giving a response rate of 28 percent.

The questionnaire employed in this study were developed from earlier research and tested for reliability. The entrepreneurial orientation was from Covin and Slevin (1989) who developed the scales based on earlier works by Miller and Friesen (1982) and Khandwalla (1977). It consists of nine items encompassing three dimensions; innovativeness, proactiveness and risk-taking. EO was measured with five point Likert-scale ranging from strongly disagree to strongly agree. Statements such as 'our firm favours a strong emphasis on research and development, technological leadership and innovations', 'our firm has marketed a large variety of new lines of products and services', 'our firm has a strong propensity for high risk projects', 'our firm believes owing to the nature of the environment, bold and wide ranging acts are necessary to achieve the objectives', and 'our firm actively responds to the adoption of new ways of doing things by main competitors' were included to measure the respondents' entrepreneurial orientation. The strategic improvisation of seven items was measured using scales adapted from Vera and Cossan (2005). The items were measured on a five-point Likert scales where '5' represents strongly agree, and '1' represents strongly disagree. Items like 'our firm deals with anticipated events on the spot', 'our firm responds in the moment to unexpected problems', 'our firm tries new approaches to problems', and 'our firm identifies opportunities for new work process', were used for the measurement. For measuring performance, a subjective self-report assessment was used. This technique was employed because it was expected that the owner/managers would be unwilling to disclose full financial data. This study measured performance with eight items, and the respondents were asked to rate their firm performance on a five-point rating scale. It has been found that subjective measures are correlated with the objective measures of performance (Dess & Robinson, 1984).

In order to examine the nature of the data and to develop the respondents' profile, descriptive statistical analysis was performed using SPSS for Windows 18.0 and Partial Least Square (PLS) path modeling was used to estimate the hypothesized research model by using SmartPLS 3.0 (Hair et al.2014).

4. Results

4.1 Demographic Profile

Table 1 shows that the number of male respondents are slightly higher than the female respondents with 74 (52.9%) and 66 (47.1%) respectively. Majority of the respondents (73 or 52.1%) either held Sijil Pelajaran Malaysia (SPM) or Sijil Tinggi Pelajaran Malaysia (STPM) qualifications while another 39 respondents (27.9%) obtained their Diplomas and 25 (17.9%) with First degree qualification. Three respondents held post degree qualifications with two who obtained Master degree and one a PhD holder. In terms of years in operation, 79 (56.4%) of the respondents' firms have been established between 5-10 years and 28 (20.0%) have been in operation between 11 to 15 years. Another 27 (19.3%) percent of the respondents' firms were established in less than 5 years. Only 3 (2.1%) firms have been in existence for more than 20 years.

Table 1. Profile of respondents

<i>Characteristics</i>	<i>Frequency</i>	<i>Percentage</i>
Gender		
Male	74	52.9
Female	66	47.1
Education		
PhD	1	0.7
Master	2	1.4
Bachelor	25	17.9
Diploma	39	27.9
SPM/ STPM	73	52.1
Years in Operation		
Less than 5 years	27	19.3
5-10 years	79	56.4
11-15 years	28	20.1
16-20 years	3	2.1
More than 20 years	3	2.1

4.2 Construct Validity

The construct validity is the extent to which a set of items in an instrument represents the construct to be measured. If the measurement model shows an acceptable level of model fit, then it is an evidence for the availability of construct validity (Hair et al., 2014). The validity of the measurement model was assessed by testing the convergent validity and discriminant validity. The convergent validity exists when the indicators of one construct converge or share a higher proportion of variance. The violation of the convergent validity adversely affects the findings. The convergent validity in the model was established by calculating the factor loadings, the average variance extracted (AVE) and composite reliability (CR) for all constructs. According to Hair et al., (2011), the loading of 0.7 and above is an ideal indicator while AVE greater than 0.5 is considered adequate convergence. Table 2 shows the results of the convergent validity analysis. Only item loadings of 0.7 and above were considered, and thus twelve items (FP4, FP5, FP6, FP7, EO1, EO2, EO3, EO4, EO5, EO6, SI2, SI3) were deleted.

Table 2. Results of convergent validity analysis

Construct	Item	Loading	CR	AVE				
Entrepreneurial Orientation (EO)	EO7	0.828	0.881	0.712				
	EO8	0.847						
	EO9	0.855						
	FP1	0.833						
	FP2	0.849						
	FP3	0.750						
	Performance (FP)	FP8			0.793	0.882	0.652	
		Strategic Improvisation (SI)			SI1	0.734	0.903	0.652
					SI4	0.768		
	SI5	0.846						
	SI6	0.835						
	SI7	0.847						

Discriminant validity is the extent to which a construct is different from other constructs (Hair et al., 2010). In examining discriminant validity the Fornell and Larcker (1981) criterion was used. It compares the square root of the AVE values with the construct correlations, and that each construct's AVE should be higher than construct's highest squared correlation with other construct. Table 3 shows the correlation matrix where the diagonal figures represent the square root of the AVE extracted of the constructs. The test results indicate that there is adequate discriminant validity since the diagonal elements are significantly greater than the off-diagonal elements in the corresponding rows and columns.

Table 3. Results of discriminant validity analysis

	EO	FP	SI
Entrepreneurial Orientation (EO)	0.881		
Performance (FP)	0.649	0.807	
Strategic Improvisation (SI)	0.706	0.694	0.807

Note: Values in the diagonal (bold) are square root of the AVE while the off diagonals are the inter construct correlations

4.3 Hypotheses Testing

By means of the PLS approach, the hypotheses of this study were tested by examining the path coefficients (β) through structural equation modeling which offers an indication of the relationships and can be used in correspondence to the traditional regression coefficients (Gefen, Straub & Boudreau, 2000). Path coefficients signify the strengths of the relationships among the independent and dependent variables, while the R^2 value is the degree of predictive power of a model for the dependent variable. Additionally, t-values of the parameter signify the strength of the relationship the parameter represents; therefore, the higher the t-value, the stronger the relationship is. Subsequently, the t-values of each coefficient were obtained by using the bootstrapping (5000) resample technique (Chin, 2010; Efron & Tibshirani, 1993). Figure 2 presents the results of the analysis.

Path analysis was used to test the two hypotheses generated from the research model. The R^2 for this model is 0.532, meaning that only 53.2 percent of the variance can be explained in the extent of entrepreneurial orientation and strategic improvisation. Based on path coefficient and t-test value results show that H1 and H2 are supported. The results show that entrepreneurial orientation (EO) and strategic improvisation (SI) positively influence the SMEs performance at significant level of $p < 0.05$ (See Table 4).

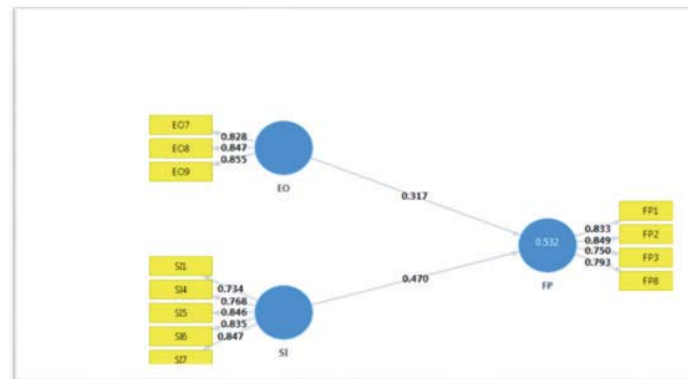


Figure 2. Results of path analysis

Table 4. Path coefficient and Hypotheses testing

Hypothesis	Relationship	Std. Beta	Std. Error	t-value	Decision
H1	EO -> FP	0.317	0.082	3.881**	Supported
H2	SI -> FP	0.470	0.081	5.808**	Supported

Note: if the t-value is greater than 1.645(* $p < 0.05$)

5. Conclusions

Results from this study proved that significant relationship exists between entrepreneurial orientation and the performance of SMEs. This confirms the results from earlier studies which revealed firms that are more willing to take risks and appear to be more innovative and proactive will lead to increased performance. Thus, skills associated with entrepreneurial orientation such as the ability to manage uncertainty, the ability to innovate to meet emerging opportunities and threats, the ability to anticipate direction and nature of business change, and the ability to tolerate are the main elements for the SMEs' survival and sustainability in facing the fast changing and complex business

environments. Additionally, these findings also highlight the importance of developing entrepreneurial orientation among the owner/managers of SMEs. Therefore, SMEs need to be innovative and proactive as possibly to enable them to cope better in these business environments.

The findings also demonstrate that strategic improvisation does contribute to an increased performance. Strategic improvisation which constitutes spontaneity, creativity and intuition, is even necessary in situations that require immediate corrective actions where most of the SMEs are in. Improvisation may increase the flexibility and adaptability of the SMEs in those situations. In addition it can be a source of competitive advantage because creativity and intuition in strategic decision making affects performance in changing business environments. Thus to succeed SMEs need to foster more strategic improvisational actions that can bring out change, enhance operational efficiency, and contribute to organizational performance and competitive advantage.

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