Entrepreneurial Orientation and Export Performance among Malaysian Small and Medium-Sized Exporters: The Mediating Role of International Opportunity Recognition

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ABSTRACT

This study affirms that the export performance of firms in emerging economies is related on their firm-specific capabilities. Specifically, small and medium enterprises (SMEs) in the manufacturing sector in Malaysia are more likely to increase export activities when their entrepreneurial characteristics and efforts are prominent. When the SMEs’ strategic features and efforts are accompanied by the skills of recognizing opportunities in international markets, started to produce a positive result on export performance. This study investigate SMEs as they currently form the majority of total business entities in Malaysia. The hypotheses are tested using SmartPLS 3.2 to achieve the objectives for this study. The results confirm that entrepreneurial orientation have a strong effect on export performance through international opportunity recognition as a mediator. This study also contributes to the individual influences of dimensions in entrepreneurial orientation on mediating variables as well as export performance.

Keywords: Entrepreneurial Orientation, Export Performance, Small and Medium-Sized Enterprises, Manufacturing.

1. INTRODUCTION

Small and medium enterprises (SMEs) have a unique role in the economy due to its contribution to industrial development in the country (Mamun, 2018; Saleh and Ndubisi, 2006). The existence of SMEs’ is recognized in both emerging and developed countries including Malaysia, following the higher number of its establishment as compared to larger firms such as multinational companies (Steenkamp and Kashyap, 2010; Pimenova and Vorst, 2004). Moreover, the process of economic recovery requires SMEs as essential drivers (Hashi and Krasniqi, 2011). Due to SMEs’ significance, Malaysia is one of those 106 developing nations that hold these enterprises as its core economic transformation since 1990s (The World Bank, 2016; United Nation, 2014). For instance, the country has observed an increment from 97.3 percent of total business establishments in 2011, to 98.5 percent in 2015, fairly contributed by the SMEs (SME Corp. Malaysia, 2017).

As larger companies are undergoing a rapid decline economically, the SME sector in Malaysia has responded positively to the systematic shock and act as the main driver of economic recovery (Papaoikonomou et al, 2012). Such response by SMEs form vital role in the reallocation of labour between firms, sectors, and industries. As such, the significant development of SMEs in Malaysia is important to ensure the achievement of a self-sufficient industrialized nation, as targeted previously in Vision 2020 (Bernama, 2017). Certainly, this change should be accompanied by the knowledge-based economy as it is a pathway for a country to be internationally competitive. The knowledge-based economy highlights the needs
for SMEs to exploit the opportunities of the knowledge driven economy (Economic Planning Unit, 2016). To be competitive, the Information and Communication Technology (ICT) industry should serve as a propeller that can facilitate the acquisition of knowledge, skills, and competencies of SMEs (Economic Planning Unit, 2016).

Another important contribution of SMEs towards the economy of this particular country is in its share to cater graduate employment (Mayombe, 2017; Lawless et al., 2014; Hart and Barratt, 2009). In 2015, Malaysian SMEs have made up of 59 percent of total employment and this has gained special focus for the economic growth in the 11th Malaysia Plan (Chin, 2015). For this reason, SMEs remain as a priority, which later reflect in its 150 development programs that have been implemented with the budget worth of RM5 billion (SME Annual Report, 2015). Given the contribution of the SMEs as employment generator and in the recovery process during economic crisis, the domestic institutions, researchers, and government alike should devote their attention to its development and future growth of Malaysian SMEs.

2. LITERATURE REVIEW

2.1 Export Performance

Extensive researches on export performance been studied in the past, covering various areas and disciplines. Although it is a popular and common research topic, there is no uniform literature regarding its definition (Cavusgil and Zou, 1994). Past researchers define export performance as the achievement of firm objectives and outcomes from activities performed by firms in export markets (Ahimbisibwe et al., 2016; Oura et al., 2016; Katsikeas et al., 2000; Cavusgil and Zou, 1994) and also as a guide for any firm in analysing its success level, either domestic or international arenas (Lages, 2000). The performance is mostly measured by achievement of a number of firm objectives, namely economic and strategic objectives that cover for export sales, profits, sales ratio, propensity to export, export intensity (Bianchi and Wickramasekera, 2016; Rock and Ahmed, 2014), export diversity, product acceptance, export involvement, export orientation (Kim and Hemmert, 2016) and satisfaction (Faroque et al., 2017; Monteiro et al., 2017; Oura et al., 2016; Garcia et al., 2016; Gyamfi and Korneliussen, 2013; Grandinetti and Mason, 2012; Cavusgil and Zou, 1994).

Apart from that, a study that reviewed literatures of 124 studies from the year 2006 to 2014 have yielded around 53 ways on how scholars measured export performance (Chen et al., 2016). This indicates that some different terminologies exist in the performance measurement literatures and it lasted for a couple of years (Schachter, 2010). Among the well-known measure includes economic aspect, which focuses on export sales growth, profitability and export intensity. On the other hand, a non-economic performance aspect that less commonly employed previously is satisfaction toward export and goal achievement. Surprisingly, the measures show no significant difference when comparing those studies dated back to the period of 1998 to 2004, as it turned out that export intensity, export sales growth, export market share and export profitability appeared as the most frequently used items to measure export performance (Sousa, 2004).

Nevertheless, a more complete measure of export performance that apply economic (objective) and non-economic (subjective) aspects of performance has been widely used. The reason being export performance is a multifaceted construct and cannot be captured by a sole indicator, and some researchers admit that there is no measure that is a complete indicator (Rock and Ahmed, 2014; Cavusgil and Zou, 1994). Apart from that, the management perception must be reflected in those quantitative and qualitative aspects (Garcia et al., 2016). As such, export performance should be appraised by objective and subjective measurements (Madsen and Moen, 2018; Erdil and Ozdemir, 2016; Oura et al., 2016; Garcia et al., 2015).
Specifically, an identifiable figure or number such as export sales growth and export profitability growth are used as objective aspect (Oura et al., 2016; Hultman et al., 2011). On the other hand, subjective aspect integrate items of expanding market size, introduction of new products, increase value and comparison with competitors (Li et al., 2017; Ahimbisibwe et al., 2016; Kim and Hemmert, 2016). The incorporation of subjective measures into objective ones is done in order to complement the difficulty of obtaining objective data. Most firms consider the data to be confidential, thus reluctant to disclose it easily (Behyan et al., 2015). Due to this limitation, the subjective measures are acceptable in export performance studies (Oura et al., 2016; Behyan et al., 2015).

2.2 International Opportunity Recognition

The recognition of opportunity for potential economic value is argued as an initial step when an entrepreneur pursues business and entrepreneurial activities. Basically, opportunity recognition is defined as a cognitive process through which individuals conclude that they have identified an opportunity that previously unexploited (Baron, 2006). As for opportunity, Kirzner (1997) defines it as a unique knowledge about goods and services that can be acquired by entrepreneurs to gain profit.

In addition, Baron (2006) perceives opportunity as a means of generating economic value that is currently not being exploited. Accordingly, opportunity recognition is conceptualized as recognizing ideas and patterns by an individual entrepreneur that brings profitable opportunities (Baron, 2006) or as the identification of a chance to combine resources that eventually generate a profit (Shane et al., 2003; Shane and Venkataraman, 2000). Lumpkin and Lichtenstein (2005) describe it as the ability to identify a good idea that later transforms into a business concept in order to add value and generates revenues. As for the term international opportunity recognition, it involves the recognition or identification of opportunities in foreign markets and exploited using resources from diverse national locations (Kontinen and Ojala, 2011).

In general, opportunity recognition represents the most fundamental entrepreneurial behaviour and a key step in the entrepreneurial process since it forms the backbone of entrepreneurs, which distinguished them from non-entrepreneurs. With that being said, if opportunities failed to be discovered, entrepreneurship would not exist (Shane and Venkataraman, 2000). Therefore, scholars have emphasized the importance of entrepreneurship for new business development and new entrepreneurial opportunities (De Carolis and Saporito, 2006). The reason is because as environment evolves, so does a business model. An entrepreneur or a firm actually requires this repeated step to recognize a potential new opportunity in order to stay competitive (Baron, 2006).

2.3 Entrepreneurial Orientation

Entrepreneurial orientation is referred to as the strategy-making process that provides a firm with a basis for entrepreneurial decision and actions in improving its competitive advantage and performance (Bianchi et al., 2017; Buli, 2017; Chen et al., 2011; Zahra, 1991). There are five components of entrepreneurial orientation and some of these dimensions have been consistently used in previous studies, such as risk-taking, proactiveness, innovativeness, competitive aggressiveness, and autonomy (Dess and Lumpkin, 2005; Hughes and Morgan, 2007; Li and O’Connor, 2017; Nazri et al., 2015; Sikora et al., 2016). These five dimensions are the extension from the original proposition of innovativeness, proactiveness, and risk-taking, which later extended by Lumpkin and Dess (1996) by adding competitive aggressiveness and autonomy.
According to previous literatures, the differences between an entrepreneurial and non-entrepreneurial firm can be determined from the perspective of the firm’s risky and proactive actions. An entrepreneurial firm engages in product innovation, undertakes risky ventures and becomes the first to come up with proactive activity before their competitors (Boso et al., 2013; Ibeh and Young, 2001; Miller, 1983). All these characteristics can be observed in entrepreneurial orientation dimension. In comparison, a non-entrepreneurial firm characterized by highly risk averse, doing very little innovation, and inclined to imitate the moves of competitors instead of leading the movement in the market.

### 2.3.1 Entrepreneurial Orientation and International Opportunity Recognition

Innovativeness is defined as a propensity of a firm to engage in new ideas generation, creative process and experimentation that produce new products, services or processes (Lumpkin and Dess, 1996). The classification of innovativeness in a firm is divided into two categories, which include technological innovativeness and product-market innovativeness. The first category focuses on product and process development, engineering and technical expertise, while the second category centres on market research, advertising, and promotion. Due to these categories, firm innovativeness may take several forms across different firms and across different industries. For instance, as research and development activity is considered as innovation activities in a one particular firm, the other firm may take in the other form of activity that can also be counted as an innovation (Miller, 1988), such as number of new products and services introduced. In either case, innovativeness is an important mechanism of which firms can take advantage of it to pursue new business opportunities (Lumpkin and Dess, 1996).

In helping firms to cater to market trends, there is a different role played by innovation activities in influencing the recognition of opportunities for value creation and profit making. For instance, innovativeness promotes a sense of open-mindedness, a condition appropriate for organizational learning to take place. As indicated by previous studies, firms and entrepreneurs that demonstrate a high level of innovativeness also possess a high level of internet adoption and capabilities, which are all critically needed to penetrate international marketplace (Glavas and Mathew, 2014). This indicate an open mindset that allows SMEs to recognize international profit potential available in the market.

In line with the discussion earlier, this study therefore proposes a hypothesis as highlighted below:

**H1: Innovativeness is positively related to international opportunity recognition.**

Risk and uncertainty is a core principal in entrepreneurship and businesses. Since opening and running a new business involves a certain level of risk, not all people are willing to get involved in entrepreneurship venture because entrepreneurs always face various risks when doing business and they have to deal with setbacks and failure.

In most cases, entrepreneurial firms will somehow avoid risky step beyond their capability to handle, and the opportunity will not be pursued if the risk associated with a potential opportunity is perceived to be too high. Due to this consideration, entrepreneurs or managers of firms tend to categorise a situation in the environment into opportunities and threats, where the situations that are controllable by firms are regarded as opportunities while the other situations as threats (Krueger and Dickson, 1994). With that, the next hypothesis is postulated:

**H2: Risk taking propensity is positively related to international opportunity recognition.**
Proactiveness refers to a process that is aimed at anticipating and acting on future needs of customers by seeking new opportunities, acting ahead of competitors via new products and brands, and reduce any operation that has achieved decline life cycle stage (Lumpkin and Dess, 1996). Others describe proactiveness as a willingness to engage in bold moves by introducing products or services prior to competitors and act in anticipation of future demand to shape the environment (Keh et al, 2007). Even without being the first to innovate and introduce a product into market, a firm is still considered proactive through its forward thinking, fast and novel in its action (Miller and Camp, 1985).

Proactiveness is also related to market opportunities, firms that are proactive have the ability to shape the environment and as well as create demand and trend. The market creation is driven by proactive firms arising from higher sensitivity to foreign market needs and a match between market needs and capabilities available in such firms (Morris et al., 2011). As contrary to reactive ones, proactive firms prefer to investigate market feasibility before venturing into the foreign market, although an opportunity can be recognized through both active and passive search. As a result, it can increase opportunity recognition through a more proactive stance in the market. Thus, SMEs who act proactively may find an opportunity to improve their position in the international market either through new product introduction, reduction in cost or new market entry. Based on all the arguments, the following hypothesis is predicted:

**H3:** Proactiveness is positively related to international opportunity recognition.

The tendency of a firm to directly and intensely challenge competitors to either achieve entry or improve the firm position in order to outperform rivals is defined as competitive aggressiveness (Lumpkin ad Dess, 1996; Lumpkin and Dess, 2001). It is a responsive act towards competitors that firms pursue, by doing a head to head confrontation or to target a competitor’s weaknesses. These reactive actions are deliberate method of continuously assessing competitors in order to reinforce firm competitiveness through a market entry or enhance market positioning, leading to the achievement of competitive advantage (Dess and Lumpkin, 2005).

In contrast to proactiveness stance earlier, competitive aggressiveness responds to trends and demand that already exist in the market, as opposed to creating, shaping and meeting new customer demand in proactiveness. In another word, a firm acts aggressively against other players to inhibit a sole monopoly of its rivals toward profitable opportunities that are available in the market. Accordingly, it can be said that both proactive and responsive actions are necessary for firms to respond to the ever-changing environment (Lumpkin and Dess, 1996). SMEs establishes advantage through continuous offensive tactics by leveraging all entrepreneurial capabilities and resources to recognize new potential opportunities. This is in line with the proposition Shane and Venkataraman (2000), who argue that opportunity exploitation for profit by one entrepreneur or firm may alert other imitators to pursue the similar opportunities until the competition reduces profit level. Based on the importance of competitive aggressiveness, the following hypothesis is proposed:

**H4:** Competitive aggressiveness is positively related to international opportunity recognition.

Another critical dimension of entrepreneurial orientation is autonomy. It is viewed as the freedom and independent action of an individual or team to bring forth an idea and vision to carry it through to completion (Lumpkin and Dess, 2005). Autonomy is also described as the decision-making ability by employees and the degree of independent action undertaken by entrepreneurial team or leader in a firm (Rauch et al. 2009). Autonomy grants employees the independence to act, self-direct, innovate, and be creative in pursuing opportunity that leads to firm flexibility and performance enhancement. It also facilitates both knowledge transfer and sharing from open communication practices, leading to new idea generations (Lumpkin et al, 2009). The aim is to spur entrepreneurial activities, which are formed through flat organizational structures and delegation of certain process to lower level hierarchy.
In traditional entrepreneurship process, SMEs tends to recognize opportunity based on their experience and prior knowledge, at which limitation is placed on their ability to recognize and connect the dot through cognitive perspective in the area that available to them, while unable to go beyond that. In this case, the association of other people are seen to broaden the area of searching and recognizing the potential opportunity for profit maximization. That is, the greater the firms’ tendency to welcome and support new ideas, the greater the firms’ chances to recognize international market opportunities. If the autonomy practices continue, a firm will somehow encourage its employees to pay more attention to the identification of opportunities itself (Ma and Huang, 2016). It occurs due to clear signal that opportunities are valued and taken seriously by their employer. According to all arguments, the following hypothesis is suggested:

H5: Autonomy is positively related to international opportunity recognition.

2.4 International Opportunity Recognition and Export Performance

Leveraging performance abroad require component of international strategy (Zahra et al., 2005). For this particular reason, identification and taking advantage of international opportunities are one of the strategy required. Bianchi et al. (2017) studied on how SMEs improve performance internationally through technology and entrepreneurial capabilities. The entrepreneurial capability include a direct positive relationship between international opportunity recognition and SMEs performance. This study is supported by Hasan et al (2016) and Glavas et al (2017) in explaining the influence of international opportunity recognition in linking resources deployed by firms toward performance improvement.

Particularly in exporting context, exportation provides an opportunity for firms to globalize, due to factors such as dismantling of trade barriers, liberalization and international connectivity of markets. Both globalization and increased competition could also render formerly successful business models obsolete. Thus, opportunity recognition is important (Guo et al., 2016; Hurmerinta et al. (2015) since it serves as an experimentation process for new business models to occur. Experimentation process is reflected by the need to identify potential opportunities and coordinate resources to capture the opportunities that served as a channel between exploratory orientation and business models in which the latter is keyed to explain a firm’s competitive advantage and success (Guo et al., 2016). Thus, this study hypothesized that:

H6: International opportunity recognition is positively related to export performance

2.5 International Opportunity Recognition as a mediator

International opportunity recognition represents fundamental entrepreneurial behaviour that provide a key step in pursuing entrepreneurial process. The advancement of technology, changes in market trends, and evolvement of environment have put this capability as a catalyst to evaluate emerging opportunities, leading to firms exploiting such new opportunities through allocating the right amount of resources (Md. Saad and Jedin, 2016). This is due to the fact that, SMEs are fundamentally limited in financial resources and capabilities. Thus, the opportunity recognized by SMEs will assist in determining the right path to seize any opportunity to stay competitive (De Carolis and Saporito, 2006). This indicates that possessing capability to recognize opportunity enables entrepreneurial oriented firms to concentrate their effort toward specific opportunities and objectives, which eventually lead to improving export performance. Therefore, the mediating effect of international opportunity recognition is proposed:
H7: International opportunity recognition mediates significantly the relationship between innovativeness and the export performance.
H8: International opportunity recognition mediates significantly the relationship between proactiveness and the export performance.
H9: International opportunity recognition mediates significantly the relationship between risk taking and the export performance.
H10: International opportunity recognition mediates significantly the relationship between competitive aggressiveness and the export performance.
H11: International opportunity recognition mediates significantly the relationship between autonomy and the export performance.

2.6 Conceptual Framework

![Conceptual Framework Diagram]

**Figure 1.** Conceptual framework.

3. METHODOLOGY

3.1 Sampling Process

A total of 1952 manufacturing SMEs with exporting activities are involved in the data collection. This population sample are the result of cross-referencing from several directories such as Malaysia External Trade Development Corporation (MATRADE) and SME Corp Malaysia since there is no readily available directories specifically designed for exporting SMEs in the country and the two directories are deemed most comprehensive and suitable for this particular study. As such, similar to previously researched studies that conducted research on the similar population in the country, the comprehensive task require the researcher to recognize relevant firms one by one through manual searching from the two reliable directories (Hashim, 2015). In addition, a census sampling is adopted as the population is quite small and insuring the response rate is high.

3.2 Measurement

Since the aim of this research is to collect the primary data from the SMEs, the questionnaires are used as its instrument. All items were adapted from previous studies, namely Hughes and Morgan (2007), Nasution and Mavondo (2008), Chang et al (2007), Glavas et al (2017), Katsikeas et al. (1996), Leonidou et al. (2011), Cadogan et al. (2009) and Katsikeas et al. (2000). All items are measured using 7-points Likert scale from strongly disagree (1) to strongly
disagree (7) for entrepreneurial orientation and international opportunity recognition while very dissatisfied (1) to very satisfied (7) for export performance.

### 3.3 Reliability and Validity of the Instrument

To ensure the satisfactory level is achieved, the questionnaire items are verified by two academics from Universiti Utara Malaysia. In addition, the questionnaire is also send for pilot study on 44 selected respondents among MBA students in one of public university in northern Malaysia, among which working in industries and possesses working experiences. Referring to Cronbach’s alpha value in reliability test, each dimension of entrepreneurial orientation achieved an above acceptable internal consistency, with innovativeness, competitive aggressiveness and autonomy is 0.94, 0.92 and 0.95 is within the excellent value respectively, while risk taking and proactiveness is 0.88 and 0.89 each. The similar result is obtained for both endogenous variables, at 0.95 for international opportunity recognition and 0.96 for export performance.

### 4. DATA ANALYSIS AND RESULTS

#### 4.1 Profile of Respondents

Around 180 usable set of questionnaires were obtained from exporting SMEs across different industries in manufacturing sectors. Descriptive analysis yield frequency and percentage of respondents’ profile and responding SMEs, which include gender, age, educational level, position in the SME, firm size, type of industry, year of operation, international experience and number of foreign countries in which the SME has exported to.

Gender of respondents, which is female (51.7%) and male (48.3%), with 37.2% of them are those of 25 to 34 years old become the majority, followed by those age 35 to 44 (25%), 45 to 55 (18.3%), less than 25 (13.3%), and 56 and above (6.1%). In regard to level of education, bachelor’s degree contributes to the highest number (48.9%) while PhD or DBA holder are the least (1.1%). As for position, executive level is recorded to be the highest (45.6%) while CEO as the lowest (5.6%). The number of full time employees is the indicators for firm’s size, which form 77.8% of small firms and 22.2% of medium-sized firms. Next, there are 22 manufacturing industries involved in the study, with majority are those in prepared food (25.6%), followed by beverages (18.3%) and agricultural produce (12.2%). As for business experiences, around 68.9% of them have been operating businesses for more than 8 years, and around 42.2% are those with more than 7 years of international experience. The experiences may contribute to majority of SMEs that have more than 5 exporting countries currently.

#### 4.2 Results

Table 2 shows the results of the analysis using PLS-SEM for five dimensions of entrepreneurial orientation, international opportunity recognition and export performance. The structural model below is done after the measurement model result shows a satisfactory level of VIF, composite reliability, cronbach’s alpha, and average variance extracted (AVE).
The results illustrate that autonomy is not significantly related to international opportunity recognition, rejecting H5. In contrast, innovativeness, proactiveness, risk taking and competitive aggressiveness are found to be significantly related to international opportunity recognition, supporting H1, H2, H3 and H4. In addition, international opportunity recognition is found to be significant with export performance, supporting the H6.

Table 3 shows the path for indirect relationship for international opportunity recognition as mediator. As indicated in the Table 3, international opportunity recognition plays a mediating role between risk taking and export performance, supporting the H9. Similar situation is found when competitive aggressiveness and export performance is mediated by international opportunity recognition, supporting the H10, while the remaining three dimensions of entrepreneurial orientation are found to be insignificantly mediated by international opportunity recognition, thereby rejecting the H7, H8, and H11.

5. DISCUSSION AND FUTURE DIRECTIONS

As stated in the objective of the study, the aim is to examine the effect of entrepreneurial orientation on international opportunity recognition, which then leads to improvement in satisfaction and export performance among manufacturing SMEs in Malaysia. Theoretically, the involvement of international opportunity recognition has contributed to the theory of RBV. In examining the effect of firms’ strategic making practices, it is found that most of the dimensions in entrepreneurial orientation with the exception of autonomy are important for the recognition of potential business opportunity and improvement in Malaysian SMEs context. The possible explanation is that most SMEs in Malaysia are managed by the owner. Thus, every decision is
centred around one particular decision maker with less authority and freedom of contributing new ideas are given to employees. This could explain why autonomy practices are minimal toward identifying new opportunity.

In addition, these findings indicate that the existence of opportunity of the firms recognized internationally to be fruitful in improving firms’ position internationally, by committing the resources to appropriate potential business opportunities. It ensures that, by embracing a proper entrepreneurial act, the firms could be aware of a current market trend and in addition could, promotes open minds and strategically move toward competing against competitors in the market. The process also entails calculated risk and aggressive stance, therefore leading to informed and rational decision making. Next, differences in performance arise from the quality of opportunity that the firm found, as such, the recognition of opportunity is position prior to the export performance.

This study is somehow not without its limitations. First, the sample usage is rather limited to manufacturing industries among small and medium-sized enterprises, neglecting micro firms which could also participate in exporting activities. Furthermore, this study could also consider another types of SMEs such as born global firms or international new venture firms, those firms which enthusiastically perform exporting activities from its inception, and in turn may provide another fascinating result to this area of study. Second, this study mainly focused on one single economy, without taking into account the effect of the research model into other, completely different economic condition such as developed countries, nor comparing with other similar countries with the similar economic condition. Therefore, the application of this result on other country's setting should be carefully examined.

REFERENCES


