

## **Linking Entrepreneurial Orientation and Business Performance: The Examination toward Performance of Cooperatives Firms in Northern Region of Peninsular Malaysia**

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### **ABSTRACT**

*Studies on entrepreneurial orientation (EO) and its influence on the performance of business firms have received widespread attention in the fields of entrepreneurship and strategy. A survey was conducted to assess the influence of five constructs of EO, including innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness toward the firm's business performance to provide additional knowledge on this subject. Assessments took place at the company level involved 104 cooperatives firms in the Northern region of Peninsular Malaysia. Multiple regression analysis carried out revealed that only the innovativeness and proactiveness constructs had significant and positive relationship with the firm's business performance. On the other hand, the constructs of risk-taking, autonomy and competitive aggressiveness do not show significant relationship with the firm's business performance. These findings are useful for a better understanding of strategies of entrepreneurial orientation and its role in improving business performance in the cooperative sector.*

**Keywords:** Business performance, entrepreneurial orientation, cooperatives firms.

### **1. INTRODUCTION**

The cooperative sector plays a vital role in generating a country's economy alongside the government and private sectors (Mohd Nusi, 2007; Suruhanjaya Koperasi Malaysia [SKM], 2010). The importance of the cooperative sector can be shown via the participation of its members in various business activities (SKM, 2010), which have been proven to improve the country's economic performance (Mahazril, Hafizah & Zuraini, 2012). As such, the cooperative sector is projected to be a dominant contributor to the national economy with a target of 10% of Gross Domestic Product (GDP) in 2020 (SKM, 2013).

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Nonetheless, the performance of the cooperative sector in Malaysia can be considered quite backward if we refer to the earnings indicator. In terms of the country's GDP, the cooperative sector had a small contribution of 1.45% in 2008 and close to 2% in 2012 (SKM, 2013). On the other hand, small and medium enterprises in the private sector contributed 32% towards the Malaysian economy (SME Corp, 2011). This pales in comparison to the GDP performance of the cooperative sector in other countries such as Kenya (45%), New Zealand (22%), Finland (16.1%) and Vietnam (8.6%) (The International Cooperative Alliance [ICA], 2012).

## **2. LITERATURE REVIEW**

### **2.1 Business Performance**

Performance can be attributed as the main indicator in assessing the operation of an organisation. Many studies in the field of management have looked into the issue of performance especially in the context of strategic management (Venkatraman & Ramanujam, 1986). Measuring performance is important as it provides a benchmark for examining particular strategies implemented in the organisation (Schendel & Hofer, 1979). According to Rozana and Abdul Hakim (2005), the assessment of performance is beneficial in upgrading and improving a firm's existing programme and policy.

However, there exists a dilemma for the cooperative firm on whether they should focus on the financial aspect or the social welfare of the members (Davis, 2006; Mayo, 2011). This differs to the situation in the private sector where there is emphasis on the social welfare of the members due to the members' status as owners and also consumers of the firm's service and products (Alfred, 1989). Nonetheless, it is vital for the cooperative to focus on its financial performance first in order to ensure its survival (Kaur, 2006) and only then proceed to fulfill its social responsibility to its members (Laidlaw, 1978).

On the other hand, some previous studies have discovered a few weaknesses in the business performance of the cooperative sector, especially concerning income earnings (Dawit, 2005; Kaur, 2006; Norwatim, 2011). In an empirical study, Kaur (2006) found that there exists a big gap in the financial performance of small and large cooperatives in Malaysia. As such, smaller cooperatives have been advised to focus on improving their business performance. In order to generate a positive business performance, the cooperative firm must be able to provide better service for its members compared to the service provided by businesses in the private sector (Soboh, Lansink, Giesen & van Dijk, 2009).

## **2.2 Entrepreneurial Orientation (EO)**

The role of entrepreneurial orientation is crucial due to its positive influence in a firm's business performance (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Wang, 2008). Through the first National Cooperative Policy, the government found some weaknesses in the entrepreneurial practice which led to sluggish business performance among the cooperative firms in Malaysia (SKM, 2010). Thus the question arises: what type of entrepreneurial practice should be applied in the cooperative firm?

The three constructs of EO introduced by Miller (1983) and Covin and Slevin (1989) have been widely accepted as constructs for innovativeness, proactiveness and risk taking. However, other constructs comprising autonomy and competitive aggressiveness are also taken into consideration (Lumpkin & Dess, 1996, 2001; Lumpkin, Cogliser & Shneider, 2009). As there is a gap in the contribution of EO constructs on business performance (George & Marino, 2011), hence a multi-dimensional analysis should be able to determine the contribution of each construct (comprising innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness) on the cooperative firm's business performance.

### ***2.2.1 Innovativeness and Business Performance***

Previous studies have found the importance of innovativeness as the main construct in entrepreneurship (Drucker, 1985). According to Lumpkin and Dess (1996), innovativeness is defined as the firm's propensity to engage and support new ideas, upgrading, experimentation and creative processes which may produce a variety of products, services or new processes. Hence, innovativeness could be considered a treat to the existing business practices and technology (Atuahene-Gima & Ko, 2001).

An innovative practice can be in the form of a research or engineering venture geared towards creating new technology, products or processes (Renko, Carsrud & Brannback, 2009). Innovation could also be introduced via a new marketing strategy for an existing product (Lumpkin & Dess, 1996), a new promotional and advertising strategy (Grinstein, 2008) or a new leadership practices (Chen, Tjosvold & Liu, 2006). As such, all innovative processes conducted would enable the creation of new customers and new markets for the firm (Kuratko, 2009).

Through the process of ongoing innovation, the reform or upgrade would be able to provide a unique quality to the firm. This would enable the firm to be at the forefront compared to its competitors (Quince & Whittaker, 2003). Hence, the distinctive quality from the innovative process would ensure better business performance following the firm's ability to attract new customers (Nikoomaram

& Ma'atoofi, 2011) as well as maintain its existing customers (Li, Huang & Tsai, 2008). Based on the above discussion, the following relationship is expected:

Hypothesis 1: Innovativeness has a positive significant relationship with business performance.

### ***2.2.2 Proactiveness and Business Performance***

Proactiveness involves a process conducted to determine and act on future needs and requirements through the search for new opportunities which may or may not be connected to the firm's current operations (Venkatraman, 1989). According to Lumpkin and Dess (1996), proactiveness refers to how a firm connects itself with possible marketing opportunities in a new entry process. Hence, firms with high proactive outlook would be able to predict any changes or requirements in the market and thus able to take advantage quickly on a particular matter (Lumpkin & Dess, 2001).

A firm's proactive outlook provides a good strategy as its quick and early action helps to guarantee high returns and further strengthens the firm's presence and brand (Lieberman & Montgomery, 1988). The act of seizing new opportunities enables the firm to glean more benefits compared to its competitors (Anand, Mesquita & Vassolo, 2009). Furthermore, the firm should be able to predict any changes in the market or any problems which may arise (Rauch, Wiklund, Lumpkin & Frese, 2009). This could be fulfilled by monitoring trends or identifying future needs for the firm's existing customers.

Previous studies have drawn on the connection between proactiveness and the firm's innovative outlook. Based on the firm's proactive outlook, via the prediction of customer and market needs, this reform is targeted towards bringing changes to the products, service, technology and management techniques (Maria, Martina & Luz, 2007). This enables the firm to act swiftly in making innovation and become the first to introduce new products and services (Maria *et al.*, 2007). Hence, the proactive outlook has been identified as having a positive relationship with business performance (Amran, 2006; Lumpkin & Dess, 2001; Shuhymee & Abdullah, 2013). Based on the discussion above, the following relationship is expected:

Hypothesis 2: Proactiveness has a positive significant relationship with business performance.

### **2.2.3 Risk-taking and Business Performance**

Risk-taking involves the propensity of the firm's management to make decision on investment and plan strategic action on uncertain matters (Covin & Slevin, 1988; Miller, 1983). According to Miller and Friesen (1978, p. 923), it is defined as "the readiness level of the managers to commit to huge resources and risk, while facing a reasonable chance of costly failure". Therefore, risks are closely related to elements such as uncertainty, capital opportunities as well as commitment to anticipated sources and returns (Lumpkin & Dess, 1996; Miller, 1983).

A joint venture faces a risk of volatility due to the high investment level which exposes the firm to the possibility of loss (Lee, Lee & Pennings, 2001). On the other hand, Lee *et al.* (2001) found that the above scenario might shift and present itself as one of the most profitable opportunities for the firm. The process of building a firm's strength in order to survive a business venture is extremely important as the risk-taking element would prove to be beneficial in the long run (Madsen, 2007).

However, Coulthard (2007) found that risk-taking involves making decisions which are planned and taken into consideration by the firm. Careful planning and prior consideration on the risk enables the firm to obtain positive results (Coulthard, 2007). Risk taking is vital in order to maintain the firm's market share or for the firm to pursue aggressive growth in the business (Kreiser, Marino & Weaver, 2002). Therefore, researchers such as Covin, Green and Slevin (2006) and Yang (2006) found that features of risk-taking form the basis for the targets of profit acquisition and improved business performance. Based on the discussion above, the following relationship is expected:

Hypothesis 3: Risk-taking has a positive significant relationship with business performance.

### **2.2.4 Autonomy and Business Performance**

Autonomy can be defined as an independent action by an individual or team in order to develop and support an idea or vision until the outcome is accomplished (Lumpkin & Dess, 1996). Freedom and flexibility provided to the members of an organization to develop and formulate entrepreneurial initiatives (Lumpkin *et al.*, 2009). The definition of autonomy in the context of entrepreneurship is in line with the practices of the corporate firm's internal venture (Rauch, 2006). As such, autonomy should be considered in order to create a competitive advantage as well as attracting clients to the firm.

Existing literature consists of two types of autonomy: autocratic and generative. Autocratic autonomy can be described as the actions of an individual with autonomy by displaying an entrepreneurial behaviour and leading a firm or company according to his leadership style (Mintzberg & Waters, 1985; Shrivastava & Grant, 1985). This type of autonomy concerns the power vested in a person in a higher position so that those in a much lower position would follow his/her orders (Mintzberg & Waters, 1985). As for generative autonomy, this refers to the entrepreneurial actions of the firm's members who generate ideas and present them to the management (Hart, 1992). Generative autonomy can be characterised by entrepreneurial actions taken by the lower level workers (Lumpkin *et al.*, 2009). Hence, this study would be directed on the application of generative autonomy with a focus on the lower level staff's actions on the management.

A study by Basu, Yeung and Casson (2008) found that any development in entrepreneurship occurs when innovative and business ventures are conducted by individuals who are open-minded and independent. Such freedom and autonomy in the organisation encourage the firm to thrive and create new ideas. With support given by the management, ideas put forward by the staff would improve performance and thus bring more profit to the organisation. (Monsen & Boss, 2009). The performance of an entrepreneurial firm is dependent on the success of the new ideas generated through the independence required by the workers, which consequently enables the new ideas to become a reality (Lisboa, Skarmas & Lages, 2011). Based on the discussion above, the following relationship is expected:

Hypothesis 4: Autonomy has a positive significant relationship with business performance.

### **2.2.5 Competitive Aggressiveness and Business Performance**

Competitive aggressiveness can be defined as the strength of the firm's efforts in achieving the best results in the market competition (Lumpkin & Dess, 1996). According to Ferrier (2001), a firm's strategic orientation is the implementation of its competitive actions. The firm's competitive actions are one of the firm's resources functions profile (Ferrier, 2001). Therefore, it is vital to examine the relationship between the development of the firm's resources (like EO), competitive behaviour strategy and the firm's performance.

According to Lumpkin and Dess (2001), a firm's competitive aggressiveness can be referred to via the firm's actions on the market trends and demands, as well as its reaction on the threats presented by the competition. Firms which compete aggressively are able to show their firm attitude to the rest of the competition while at the same time strive to improve their position in the market

(Venkatraman, 1989). Porter (1985) further stresses on the importance of competing aggressively for the sake of the firm's continuity as well as to enable new firms to achieve success. Campbell-Hunt (2000) found that cost strategy and cost differentiation play an important role in designing a competitive strategy for a firm.

The competitive aggressive behaviour of a firm is evident in a few examples. Porter (1985) found that the firm can implement competitive aggressiveness via different actions, changing contexts through re-defining a product or market and also by spending a big amount of money in order to compete with the main leader in the industry. Furthermore, the firm can also set a target to achieve a section of the market share and act to achieve the target by making price cuts (Venkatraman, 1989) or by copying successful business practices and techniques employed by the competitors (Rumelt, 1984). According to Zahra and Covin (1995), the behaviour shown can assist the firm in competing with others in the market and thus enable the company to increase its business performance. Based on the discussion above, the following relationship is expected:

Hypothesis 5: Competitive aggressiveness has a positive significant relationship with business performance.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Procedure and Sample**

The number of sample involved is based on the sample size determination table by Krejcie and Morgan (1970). 331 out of 2,561 micro, small and medium cooperative firms were involved as the study sample. The firms are operating in the states of Perlis, Kedah, Penang and Perak and in all business categories except cooperative banking. The questionnaires were posted to the respondents according to a list of cooperatives registered in the year 2012 which was acquired from SKM. In line with Jamilah, Yusman, Hamizah *et al's* study (2008), the respondents consisted of the cooperative firms' management, made up of the chairman, vice chairman, secretary or treasurer. This is due to the management's knowledge of the business operation of the respective cooperative firms.

#### **3.2 Measurement**

The measurement of a firm's performance involves various indicators. However previous studies have identified two main indicators involving financial performance and business growth (Wiklund, 1999). Nonetheless, there exist conflicting ideas on whether the measurement could be done objectively or subjectively. Generally, Yusuf (2002) found that objective measurement is more

reasonable as the acquisition of financial data can reveal the exact position of a firm's performance. On the other hand, subjective measurement can be done by examining the perception of the firm's management (Rosli & Norshafizah, 2013); but this may be exposed to risks such as misunderstanding and bias from the respondents. As such, this study employed objective measurement using the firm's financial data. The items measured involved the firm's financial earnings from the last three years (Wiklund & Shepherd, 2003).

For entrepreneurial orientation, the multi dimensional measurement involved separate examinations for all constructs. There are five constructs involved: innovativeness (5 items), proactiveness (5 items), risk taking (5 items), autonomy (6 items) and competitive aggressiveness (5 items). All items used were adapted from scholars such as Covin and Slevin (1986, 1989), Dess, Lumpkin & Covin (1997), Lumpkin (1996), Lumpkin and Dess (2001) and Lumpkin *et al.* (2009). The feedback on these measurements was given using the 7-point Likert Scale (from 1 = strongly disagree to 7 = strongly agree).

## **4. DATA ANALYSIS AND RESULTS**

### **4.1 Sample Profile**

The collection of data using questionnaires may raise certain issues regarding non response bias. To assess whether there exists a significant difference between respondents and non-respondents, a response bias test was conducted. In this matter, a non-respondent is assumed to have the same characteristics as respondents who provided late feedback (Amstrong & Overton, 1977). To address this issue, 62 sets of questionnaires were considered as the early respondents while 42 sets were identified as late respondents. The t-test conducted on the study variables found that there was no significant difference between the two types of responses.

The feedback from the questionnaires which had been returned and considered useful for advanced analysis had a percentage of 31.4% (104 sets out of 331 sets). This rate was considered adequate due to the time constraint and the accessibility of the sources for small firms (Bartholomew & Smith, 2006). The sample studied included respondents from the states of Perlis (13.4%), Kedah (27.9%), Pulau Pinang (25.0%) and Perak (33.7%). Respondents from the micro-sized firms accounted for 85.6% while the small-sized firms accounted for 14.4%. As for the number of worker involved, the percentage for each group size was 78.8% (less than 4 workers), 17.3% (4 to 6 workers) and 3.9% (more than 6 workers).



## 4.2 Descriptive Statistics and Correlations

The data was analysed using the SPSS software. Before that, a preliminary analysis was conducted to ensure that there was no violation in terms of the normality, linearity and homoscedasticity assumptions. Table 1 below summarises the findings of the analysis of mean, standard deviation and correlation for the study variables.

Table 1: Descriptive Statistics and Correlations of Business Performance and Entrepreneurial Orientation

Variables	Mean	S.D	PERF	INN	PRO	RTK	AUT	CAG
PERF-Business performance	-	-	1.00					
INN-Innovativeness	5.06	.740	.183	1.00				
PRO-Proactiveness	4.64	.982	.236*	.360**	1.00			
RTK-Risk taking	4.83	.921	.051	.401**	.522**	1.00		
AUT-Autonomy	4.93	.736	.108	.362**	.431**	.637**	1.00	
CAG-Competitive aggressiveness	4.39	.887	.077	.203*	.613**	.526**	.483**	1.00

Note: Correlation is significant at the \* $p < .05$ , \*\* $p < .01$

Referring to the table, the analysis shows that the highest mean value for the innovativeness construct indicates that the firms tended to concur with the innovative behaviour in their companies. While the other mean values which exceeded 4.00, such as autonomy (4.93), risk-taking (4.83), proactiveness (4.64) and competitive aggressiveness (4.39) indicate that the firms showed their tendency to concur with the mentioned orientation. For the standard deviation, the smallest value was accorded to autonomy (SP = .736), which showed the dispersion of data distribution.

Pearson's correlation coefficient was used to assess the existing correlation on all the constructs. The correlation indicator can be applied at the small level (at  $r = .10$  to  $.29$ ), medium ( $r = .30$  to  $.49$ ) and large ( $r = .50$  to  $1.0$ ) (Pallant, 2007). Based on the table above, we found that only one entrepreneurial orientation construct (indicated by proactiveness) was significantly correlated at a small level with business performance ( $r = .236$ ,  $p < .05$ ). On the other hand, constructs such as innovativeness ( $r = .183$ ), risk-taking ( $r = .051$ ), autonomy ( $r = .108$ ) and competitive aggressiveness ( $r = .077$ ) did not correlate significantly with business performance. Nonetheless, all five constructs correlated significantly and positively with one another ( $p < .01$ ) while innovativeness correlated with competitive aggressiveness at a level of  $p < .05$ .

### 4.3 Testing of Hypotheses

Multiple regression analysis was used to examine the existence of a relationship between the variables with business performance. The analysis was conducted in order to test the study hypothesis including H1, H2, H3, H4 and H5. The findings from the analysis are shown in Table 2 below:

Table 2: Regression Analysis of Entrepreneurial Orientation towards Business Performance

	Standardized Coefficients Beta ( $\beta$ )	T	Sig.
(Constant)		7.496	<b>.000</b>
Innovativeness	.072	2.227	<b>.028*</b>
Proactiveness	.082	2.019	<b>.046*</b>
Risk-taking	-.039	-.932	.354
Autonomy	-.015	-.391	.697
Competitive aggressiveness	-.024	-.585	.560
R <sup>2</sup> = .923		R <sup>2</sup> Change = .009	Sig F Change = .049
Adjusted R <sup>2</sup> = .917		F Change = 2.327	F = 142.357

Note: \* $p < .05$ , \*\* $p < .01$

Based on the table above, the analysis indicates that a relationship existed between all the EO variables and business performance. This model shows that the relationship was significant (at  $F = 142.357$ ,  $p < .01$ ). This informs us that there was a direct relationship at a confidence level of 99% between the EO constructs and business performance. The changes in the business performance were elaborated by all the EO constructs by an aggregate of  $R^2$  at 92.3%. Furthermore, the changes in the business performance could be elaborated by each of the EO constructs separately at an adjusted  $R^2 = .917$  with the rate of 91.7%.

The multiple regression analysis shows that the innovativeness and proactiveness constructs had a significant relationship with business performance. However, the existing relationship had a small value of  $\beta = .072$  (innovativeness) and  $\beta = .082$  (proactiveness) at a level of  $p < .05$  towards business performance. The analysis on the innovativeness construct revealed the t-value of 2.227 and the p-value of 0.028 while the analysis on the proactiveness construct showed the t-value of 2.019 and the p-value of 0.046. Thus H1 and H2 were supported. On the other hand, other constructs such as risk-taking ( $\beta = -.039$ ), autonomy ( $\beta = -.015$ ) and competitive aggressiveness ( $\beta = -.024$ ) did not show any significant relationship with business performance. The values for risk-taking ( $t = -0.932$ ,  $p = 0.354$ ), autonomy ( $t = -0.391$ ,  $p = 0.697$ ) and competitive aggressiveness ( $t = -$

0.585,  $p = 0.560$ ) indicate that the three constructs had a non-significant relationship with business performance. Thus H3, H4 and H5 were rejected.

## 5. DISCUSSIONS AND IMPLICATIONS

This study aimed to examine the relationship between entrepreneurial orientation constructs (innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness) with the cooperative firms' business performance. The results show erratic findings between each EO construct with business performance. It was found that only the innovativeness ( $\beta = .072$ ,  $p = .05$ ) and proactiveness ( $\beta = .082$ ,  $p = .05$ ) constructs had significant and positive relationships with business performance. As such, the innovativeness and proactiveness outlook in the firms contributed to the higher business performance. On the other hand, the three other constructs, which are risk-taking, ( $\beta = -.039$ ), autonomy ( $\beta = -.015$ ) and competitive aggressiveness ( $\beta = -.024$ ) did not show a significant relationship with business performance. The findings contradicted with the conceptual framework suggested by Lumpkin and Dess (1996) who found a significant relationship between the five EO constructs with business performance. Nonetheless, this study's findings have been supported empirically by a few researchers (such as Amran, 2006; Boso, Cadogan & Story, 2012; Mahazril *et al.*, 2012).

To summarise, this study highlighted the significant relationship shown by the two EO constructs towards business performance. The relationship involved the innovativeness and proactiveness outlook practised by the firms which had affected to the higher business performance. Based on the findings, the cooperative firm is advised to practise innovative and proactive behaviour consistently in order for the firm to succeed in its venture. The cooperative firm's management should encourage the staff to practise the two EO constructs in the organisation. Through the policy and training programmes which have taken into account the innovative and proactive behaviour at the organisation level, the government via its agencies can help to strengthen the position and performance of the cooperative firms.

However, from an academic point of view, further research should be carried out extensively on the cooperative sector in Malaysia and in other contexts as well. This is due to the nature of the EO actions which are context-specific and highlight the erratic findings of the implications to the business performance (Su, Xie & Li, 2011). Moreover, the multidimensional measurement of the EO and the additional use of the autonomy and competitive aggressiveness variables (as suggested by Lumpkin & Dess, 1996 and Lumpkin *et al.*, 2009) should be reinforced for the future. A multidimensional examination of other EO constructs would be able to contribute to a better understanding of the factors which affect

the business performance. Finally, in line with Wiklund and Shepherd's study (2005), the dimensions that measure performance such as profitability and firm growth should also be examined in a multidimensional manner in future studies in order to gain more understanding of various business performance dimensions.

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