

## ENTREPRENEURIAL ORIENTATION IN INTERNATIONALISED SMES: EVIDENCE FROM MALAYSIA

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**Abstract:** *The international entrepreneurship (IE) literatures suggest that entrepreneurial orientation (EO) enhances the performance of firms in international markets, however, the empirical results are inconclusive. Drawing on the resource-based view (RBV), this study attempts i) to examine whether EO prevails in Malaysian SMEs that compete in the world market; and ii) whether EO can be associated with the performance of the firms, in particular, international performance. The study employed a quantitative research method and conducted a large-scale, self-administered questionnaire survey in Malaysia. Drawing upon data from 203 Malaysian internationalised SME, the statistical results show that the perceived level of EO is above average level. Among the measures of EO, innovativeness is relatively higher than pro-activeness and risk-taking behaviours. Moreover, the analysis reveals the positive association of EO in the firms' international performance. Significant practical implications are derived accordingly for business practitioners and policymakers to promote SMEs' international business development and growth.*

**Keywords:** *SMEs; International Entrepreneurship; Entrepreneurial Orientation; International Performance*

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### Introduction

The idea of expanding internationally is deemed to be out of reach for small and medium-sized enterprises (SMEs) because they are often conceived as resource-constrained, lacking the managerial ability and skills, adequate knowledge of overseas markets and financial means to expand abroad compared with large businesses (Brouthers et al., 2015). Yet, despite their small size, today, they account for a significant portion of the global trade. Increasing research interest in SME foreign business development and activities has been driven by the recognition of SMEs as an important driving force in individual countries' economies, as well as increasing the intensity and diversity of their international involvement (Coviello and McAuley, 1999; Brouthers et al., 2015).

Subsequently, a growing body of research has focused on understanding how SMEs can enhance international performance (Dimitratos et al., 2004; Lu and Beamish, 2006; Brouthers et al., 2015). While the extant literature widely associates small size with inherent resource limitations, the smallness of SMEs may present some key advantages which paradoxically explain the successful growth of many of these firms abroad (Liesch and Knight, 1999; Young et al., 2003). Specifically, these key advantages of smallness are believed to be associated with these firms' distinctive managerial behavioural characteristics (Vossen, 1998). Among different managerial behavioural characteristics, the entrepreneurial-oriented behaviour is commonly emphasised in studies across contexts as a pivotal factor in explaining the international performance of SMEs (Zahra, 1993; Zahra and George, 2002; Oviatt and McDougall, 2005; Covin and Miller, 2014).

The construct and manifestations of entrepreneurial orientation (EO) of firms have attracted extensive research interest over the years (Covin and Miller, 2014). Previous research has shown that firms which have a high EO tend to be more advantageous compared with those firms with low EO (Lee and Peterson, 2000). EO is considered to be a driving factor for value creation not only in domestic markets but also in international markets (Dimitratos et al., 2004). Within the international entrepreneurship (IE) literature, the EO construct is extended to explain international business activities and outcomes of firms. Specifically, a few scholars have devoted to examining the effects of EO on the international business performance of firms (Covin and Miller, 2014). Although research often presumes high EO of a firm to have a positive association with international performance, findings of the relationship are inconclusive (Covin and Miller, 2014). Moreover, the limited available empirical evidence suggests that EO is positively related to international performance (e.g., Jantunen et al., 2005; Zhou, 2007). Hence, more empirical evidences should be gathered to support this supposition.

Furthermore, most of the studies on EO have been conducted on companies in developed countries. In an empirical review of 10 years of export research, Zou and Stan (1998) find that more than 90 percent of the studies were conducted in firms based on developed economies. Likewise, in a review by Singh (2009) on export research published in the top four international business journals (i.e., *Journal of International Business Studies*, *International Business Review*, *Management International Review*, and *Journal of World Business*), he finds that majority of the work was based on firms from developed economies. Except for a few studies which mainly focused on EO in Malaysian SMEs operating locally (e.g. Poon et al., 2006; Arshad et al., 2014; Arshad and Rasli, 2016), while studies using the concept of EO in Malaysian companies that expanding to foreign markets is rather limited.

Therefore, it is the objective of this study to examine whether EO prevails in Malaysian SMEs that compete in the world market, particularly, internationalised SMEs. In general, this study sought to provide empirical evidence on the prevalence of EO among internationalised SMEs, in Malaysia. Specifically, the objectives of the study are to assess the perceived levels of EO in these firms and to examine whether EO can be associated with SMEs' international performance.

The remainder of the paper is organised as follows: the next section discusses the literature review and the third section describes the methodology used to identify the research sample of internationalised SMEs from Malaysia. The fourth section presents the statistical results of the study. The paper concludes with the discussions of results and practical implications of the study, and suggestions for further research.

## **Literature Review**

The theoretical foundation of this research is underpinned by the resource-based view (RBV) (Penrose, 1959; Barney, 1991), since the key model construct, i.e. EO can be perceived as a firm's internal resources and/or capabilities. The RBV places the focus on internal factors of the firm, rather than external environment factors and explains that a firm's behaviour and performance is based on the firm's inherent resource position (Penrose, 1959). The RBV emphasises that a firm-specific inherent resources, make it more likely to participate in highly competitive business-process activities and subsequently achieve a high performance (Penrose, 1959; Barney 1991). The firm, therefore, is the source of competitive advantage with its competitive advantage residing in the firm's inherent resources (Penrose, 1959; Barney, 1991). Thus, EO can be viewed as a firm's resources which potentially enhance the performance of SMEs in international markets.

### ***Entrepreneurial Orientation and International Performance***

EO generally can be regarded as an intangible resource of a firm. It characterises the opportunity-seeking behaviour of the firm (Alvarez and Busenitz, 2001). EO defines a strategic organisational posture, which captures specific processes, practices and activities that enable firms to create value by engaging in entrepreneurial endeavours (Lumpkin and Dess, 1996). Three dimensions – innovativeness, proactiveness and risk-taking – are proposed by Miller (1983) as the heart of EO and are widely adopted in management studies.

In the IE literature, EO is considered to be one of the core constructs. This is acknowledged in the literature (Weerawardena et al., 2007; Rialp et al., 2015) and the dimensions of EO: innovativeness, proactiveness and risk-seeking behaviour are explicitly incorporated in McDougall and Oviatt's (2000) definition of IE. Furthermore, Miller (1983) implicitly views the three dimensions of EO together as comprising a basic, uni-dimensional strategic orientation and the three dimensions of EO are highly inter-correlated with each other and related to firm performance in similar ways. As such, Miller (1983) conceives EO as the simultaneous exhibition of innovativeness, proactiveness and risk-taking behaviour.

The study follows from the evidence of the majority published research on this topic and it is expected that internationalised SMEs exhibiting high levels of EO will thus enhance international performance for three reasons as follows:

First, studies find that firms that have a stronger tendency to develop new products or significantly enhance existing products can better tailor to and satisfy the different, specific demands and requirements of customers in international markets (Knight, 2001; Zhang et al., 2012). Innovation also helps firms develop and enhance key capabilities in operating and competing internationally through improving their business models; ways of acquiring, organising and deploying resources; and business processes and activities. As a result, the aspiration to innovate enables entrepreneurial firms to explore and exploit opportunities in the dynamic international business environment more responsively, efficiently and effectively.

Second, firms of higher EO are proactive in spotting and pursuing new and promising opportunities to pioneering new business, introducing new products, and strategically eliminating operations that are at the mature or declining stage of the life cycle (Venkatraman, 1989). The ambition and ability to stay at the forefront of the latest market and business developments ahead of competitors are vital for firms to continuously gain insights into international market opportunities, and to keep abreast of changes to stay competitive (Zahra and Garvis, 2000; Zhang et al., 2012).

Third, international business activities present additional risks due to a high probability of risk in an unknown and foreign environment with significant differences in cultural, political and legal systems, and economic (Ripollés-Meliá et al., 2007; Lan and Wu, 2010). Thus, only firms that are willing to counter such risks are likely to make the resource commitment and boldly pursue the opportunities present to reap a higher return.

Therefore, firms with higher EO are commonly presumed to be more proactive and assertive to scan for and identify new business opportunities, develop innovative solutions to problems, and willing to take risks to pursue untapped and unproven market prospects to reap targeted outcomes than their competitors (Covin and Slevin, 1989; Rauch et al., 2009). In the international context in which market conditions and resource needs are significantly different from and present higher risks than those of the domestic market, it is expected that the effect of EO on firm performance will be magnified.

In view of the importance of EO to the international performance of the firms, this study attempts to assess the levels of EO in Malaysian internationalised SMEs and also based on the aforementioned discussion; the following hypothesis is put forward to examine the association between EO and international performance:

*EO is positively associated with the international performance of the firms.*

## **Methodology**

The study carried out a self-administered postal questionnaire survey of Malaysia internationalised SMEs based on three sampling criteria. Participating firms are i) SMEs in terms of a number of employees (Onkelinx et al., 2015). Due to various definitions of SMEs (Lamb and Liesch, 2002; OECD-APEC Global Conference, 2006), the study follows the Malaysian SMEs definition which number of employees should be in between 5 to 200; ii) already involved in foreign business activities (De Clercq et al., 2014); and iii) domestically owned rather than subsidiaries of foreign firms (De Clercq et al., 2014). Both manufacturing and services firms were included in the study in order to ensure a representative sample (Miller, 2008).

Applying the aforementioned sampling criteria, a list of a total of 1,000 internationalised SMEs was obtained from Malaysia SME Corporation. This list of SMEs was used as the sampling frame for this study. Data for the study were collected during the period from February to June 2016. A total of 203 completed questionnaires from the 1000 questionnaires distributed were obtained for this study, giving a response rate of 20.3 per cent. The study also examined whether the early and late respondents differed with regards to the means of two demographic variables (the age of the firms and the size of the firms in terms of a number of employees). The t-test statistics indicate that the differences between the means of both variables are not significant between the two groups of responses ( $p < 0.05$ ), and hence it is concluded that non-responses bias is apparently not a problem in this study (Armstrong and Overton, 1977).

The choice of empirical location is in correspondence with the research focus on the international performance of SMEs and also combined with the suggestion from a recent literature review (Wales et al., 2013) to use data from under-researched contexts, particularly developing country contexts, renders Malaysia an ideal location for exploring the research objectives. Malaysia with its abundance of natural resources and strategic location within South East Asian, is one of the 'Tiger Cub Economies', alongside Indonesia, the Philippines

and Thailand (Asian Development Bank, 2011). International business has always been important for the Malaysian economy. Based on Malaysia's 2017 trade figures, total trade of the country registered stellar performance which grew by 19.4 per cent to reach MYR1.774 trillion, compared to MYR1.486 trillion recorded in 2016. Exports in 2017 rose significantly by 18.9 per cent which the strongest growth since 2005 to MYR935.39 billion and imports grew by 19.9 per cent to RM838.14 billion, resulting in a trade surplus of MYR97.25 billion. Consequently, Malaysia has enjoyed twenty consecutive years of trade surplus since 1998 (MATRADE, 2018). This remarkable performance has demonstrated the competitiveness of Malaysian firms in international markets.

### *Measures*

A survey questionnaire was developed as the research instrument. In order to obtain valid and reliable measures of the variables, previously validated scales were adopted and used for all the constructs in this study. All questions related to EO and international performance were presented in the form of seven-point scales to ensure maximal respondents' specificity and increase response rate and accuracy of answers (Hulbert, 1975; Knight and Cavusgil, 2004).

The most extensively used measures of EO is proposed by Covin and Slevin (1989) and is based on earlier conceptualisations of EO by Miller (1983) which consists of three basic characteristics; innovative attitude, pro-activeness and the willingness to take risks. A study conducted by Kreiser et al., (2002) provides support for the cross-cultural validity of the EO scale items developed by Covin and Slevin (1989). Their measure of EO has been utilised in a wide variety of research setting and has a high level of reliability and validity in numerous study (Kreiser et al., 2002; Wiklund and Shepherd, 2005). Thus, the three-dimensional construct of EO is applied in this study. Each dimension consists of three items, giving a total of nine items for the EO construct.

As for international performance, previous research has measured performance with either objective or subjective indicators. Both approaches have pros and cons, and as a result, there is no uniform agreement on whether objective or subjective or both performance measurements should be applied in research. This study employed subjective indicators in which key respondents were asked to assess the performance of their firms in the international marketplace in terms of sales level, growth, profitability, and overall performance in foreign business activities. This approach follows previous studies, which has reported adequate reliability estimates for very similar scales of performance (Zou and Stan, 1998; Zahra and Garvis, 2000; Balabanis and Katsikeas, 2003).

To additionally validate the subjective performance measures as well as to enhance the validity of evaluation and research findings, the study followed the practice of previous studies (Gupta and Batra, 2015) and gathered objective data for performance for a subsample (approximately 38 per cent) of the firms participating in the research. The Guttman split-half reliability test was employed to triangulate the primary data with the secondary data collected. The result of the Guttman split-half reliability test on foreign sales as a percentage of total sales ( $R = 0.906$ ) shows a high consistency of the secondary data with the primary data obtained from the questionnaires. This further ensures credibility for the dependent variable under examination.

Moreover, the study included four control variables that were expected to influence the results of the research; i) the age of firm, ii) the size of the firm, iii) the industrial sector, and iv) the international experience of the firm. Prior research has found that the aforementioned

four variables influence internationalisation processes and outcomes (Dimitratos et al., 2004; Wales et al., 2015). Therefore, these variables have been included in the research as control variables.

## **Results**

The Statistical Package for Social Sciences (SPSS) was used to generate the key informants' profile, company profile and descriptive statistics for EO and international performance. Out of the total 203 key respondents from the survey, the majority are general managers (33.5 per cent) and owners (29.6 per cent). The majority of the respondent firms in the survey are small firms by the official definitions of Malaysian SMEs adopted in this study in terms number of employees: 53.2 per cent have 75 or fewer employees. The results also show that most of the respondent firms are relatively old; with 61.8 per cent of the firms have been established 13 years or more, in total. This suggests that the firms have been in operation for a long time. Most of the respondent firms in the study sample are come from the manufacturing industry (82.7 per cent) and followed by the services industry (17.2 per cent).

In terms of foreign business involvement, the majority of the respondent firms (70.9 per cent) in the present study sample have started to develop foreign business activities for less than 6 years since it started operation. The majority of the respondent firms (196) have their foreign business development through direct exporting. The result is consistent with other studies because this non-direct investment mode to develop foreign business is relatively less-resource intensive and is easily achieved by the resource-constrained SMEs (Lu and Beamish, 2006). In total, with 42.4 per cent of the respondent firms have more than 50 per cent of the significance of foreign sales while only with 26.6 per cent of the respondent firms that have less than 25 per cent of the significance of foreign sales.

As aforementioned, previously validated scales were adopted and used for all the constructs in this study. However, to ensure that the constructs of the study is valid and reliable, the study conducted a factor analysis and an internal consistency reliability analysis of the constructs using factor loadings and Cronbach's Alpha, respectively. Table 1 summarises the means, standard deviations, factors loadings and Cronbach's Alpha for all the constructs assessed in this study. Individual item reliability is considered adequate when an item has a factor loading that is greater than 0.60 on its respective construct (Hair et al, 2009). Although the rule-of-thumb is to accept items with loadings of 0.60 or better, some scholars (e.g. Chae and Hill, 2000) recommend that items with factor loadings greater than 0.30 can be retained whereas Hair et al., (1998) suggest that a loading over 0.40 is necessary when sample size is around 200, which is consistent with Stevens' (1992) recommendation. The sample size for this study is 203; thus only items with factor loadings greater than 0.40 have been retained for the following analyses. Based on the results of factor analysis (see Table 1), all factor loadings range from 0.591 to 0.931 are above 0.40 threshold level, therefore, accepting measures as adequately reliable. Moreover, KMO value of 0.703 indicates the adequacy of sampling, thus the data is significant in factor analysis.

Subsequently, Nunnally (1987) suggests a cut-off Cronbach's Alpha value of 0.70 as appropriate for modest construct reliability. As shown in Table 1, Cronbach's Alpha is 0.822 and 0.928, and these values exceed the recommended threshold value of 0.70, thus accepting measures as adequately reliable. Additionally, in order to avoid multicollinearity, the study mean-centred the independent variables before calculating interactions (Aiken and West, 1991). Additionally, the study also used the variance inflation (VIF) test to directly assess multicollinearity. The largest value was below two (range from 1.081 to 1.382), far below the

critical value of 10. This further implies that no serious multicollinearity problems are present (Sarstedt et al., 2014).

**Table 1: Means, Standard Deviations, Factor Loadings and Cronbach's Alpha**

Study constructs	Mean	Standard deviation	Factor Loadings	Cronbach's Alpha
<b>Entrepreneurial orientation (EO)</b>	<b>5.18</b>	<b>0.82</b>	-	<b>0.822</b>
- <i>Innovativeness (INN)</i>	5.68	0.88	-	
<i>INN1</i>			0.591	
<i>INN2</i>			0.631	
<i>INN3</i>			0.677	
- <i>Pro-activeness (PRO)</i>	4.90	0.95	-	
<i>PRO1</i>			0.718	
<i>PRO2</i>			0.630	
<i>PRO3</i>			0.710	
- <i>Risk-taking (RISK)</i>	5.00	1.05	-	
<i>RISK1</i>			0.618	
<i>RISK2</i>			0.791	
<i>RISK3</i>			0.789	
Kaiser-Meyer-Olkin (KMO)			<b>0.703</b>	
<b>International performance</b>	<b>5.45</b>	<b>0.86</b>	-	<b>0.928</b>
- <i>Foreign business sales</i>	5.42	0.96	0.886	
- <i>Foreign business growth</i>	5.45	1.07	0.931	
- <i>Foreign business profitability</i>	5.48	0.96	0.881	
- <i>Overall performance in foreign business activities</i>	5.39	0.99	0.927	

Note:  $N = 203$

All items used a 7-point Likert-type scale ranging from 1= strongly agree through 7= strongly agree).

### ***Perceived Level of Entrepreneurial Orientation***

The level of EO among internationalised SMEs in Malaysia is perceived to be high. The overall mean of EO is 5.18. Among the measures of EO, innovativeness (mean=5.68) is perceived to be relatively higher than the other two measures; pro-activeness (mean=4.90) and risk-taking (mean=5.00). Pro-activeness is the lowest among the three measures of EO. These results related to EO show that the internationalised SMEs in Malaysia can be considered to be quite entrepreneurial – innovative, pro-active and willing to take risks.

Nevertheless, the level of EO needs to be enhanced, specifically in terms of being proactive and taking risks. The management of these companies should try to initiate actions by introducing new products into the market rather than merely responding to the actions of competitors. Also, the internationalised SMEs in Malaysia should be more willing to take risks by entering foreign markets that are outside of the Southeast Asian markets. An interview with one of the key informants, a marketing manager of a food exporting company indicates that the company tend to be very cautious in selecting the foreign countries they would enter to export their products. More familiar and established markets are preferred. This is corresponding with extant internationalisation literature that explains firm prefers to enter culturally close distance markets which are more appealing due to similarities between the home and host countries. For instance, Johanson and Vahlne (1977) observe that Swedish firms in their sample study progressively expanded from their home base into countries with greater "psychic distance".

### ***Association Between Entrepreneurial Orientation and Firms' International Performance***

In order to test the association between EO and firms' international performance, a hierarchical regression analysis in SPSS was used. Table 2 summarises the results of hierarchical regression analysis in the study. In Step 1 (base model), the four control variables were regressed against international performance and then in Step 2 (independent model), EO was added to the equation model. The incremental change in  $R^2$  resulting from the addition of EO was tested for statistical significance (Pedhazur, 1982). In addition to the assessment for the size of the  $R^2$ , the effect size,  $F$  assesses the magnitude or strength of the relationship between the latent variables. Such discussion is important because the effect size,  $F$  helps researchers to assess the overall contribution of a research study. General guidelines for assessing the effect size,  $F$  suggest that values of 0.02, 0.15 and 0.35 indicate small, medium and large effects, respectively (Cohen, 1988). According to the results in Table 2, the value of 0.326 indicates the effect size,  $F$  for the predictive value of EO on international performance and this value shows a large effect in producing the  $R^2$  for international performance. Table 2 summarises the results of this analysis and showing that EO positively influences the international performance of SMEs. Hence, Hypothesis 1, *which predicted that EO would be positively associated with the international performance of the firms, is fully supported.*

The findings provide empirical support that EO positively influences the international performance of SMEs in terms of foreign business sales, growth, profitability and the overall performance in foreign business activities. The finding further enriches knowledge regarding the importance of EO in the business development of SMEs, particularly in the international context. This is in line with the premise of IE perspective (Oviatt and McDougall, 2005). A high EO enables SMEs to flexibly and quickly adapt and adjust in an international environment, thus, enhances their competitive advantage. The demand patterns of international customers are likely to be more diverse than those in domestic markets. SMEs with high EO have a stronger aspiration to produce innovative products to meet different demands and requirements and to seek for innovative solutions to optimise operations and mitigate challenges. A proactive and risk-taking attitude also urges and enables firms to constantly gain insight into international market opportunities; anticipate and pioneer changes in the competitive business environment; be assertive and willing to take bold actions to achieve a higher return from international opportunities.

**Table 2: Results of Hierarchical Regression Analysis**

Construct	Base Model	Independent Model
<i>Control variables</i>		
Firm age	-0.64	0.42
Firm size	0.65	0.52
Industry	0.25	0.73
International experience	-0.29	-0.23
<i>Main variable</i>		
EO		0.57***
$R^2$	0.007	0.328***
Adjusted $R^2$	-0.014	0.311***
$\Delta R^2$		0.321***
$F$	0.326	19.221***
$\Delta F$		18.895***

$N = 203$ ; \*\*\* $p < 0.001$



## **Conclusions**

SMEs play an important and major role in international business. Due to this reason, researchers have expended substantial effort to identify determinants of SMEs' international performance (Lu and Beamish, 2006; Brouthers et al., 2015). Building on the RBV (Penrose, 1959; Barney 1991) and previous research (Dimitratos et al., 2004; Jantunen et al., 2005), this study theorises that EO is an important firms' resources that contributes to the international performance of the firms. Accordingly, two research objectives are put forward in this study; i) to determine the prevalence of EO in internationalised SMEs in Malaysia, and ii) to examine whether EO can be associated with SMEs' international performance.

Results of this study show that EO is present, suggesting that internationalised SMEs exhibited high entrepreneurial characteristics and traits. Additionally, the findings also provide empirical support for the association between EO and international performance. The findings provide important theoretical contributions to the small business and IE literature. The positive association between EO and international performance further enrich knowledge regarding the importance of EO for business development of SMEs, particularly in the international context. The findings suggest that firms with a strong innovative tendency, a proactive stance relative to competitors, and a willingness to take risks in pursuit of opportunities are more likely to perform better in international markets and they are major components inducing internationalised SMEs to enhanced international performance.

The majority of extant research on EO and its effects on firms' international performance, have mainly concentrated on certain countries, particularly developed countries in North America and Europe which its' institutional conditions for business transactions are well established (Wales et al, 2013). It remains to be examined whether the research undertaken in developed countries is relevant to the context of developing countries. Hence, the findings of the study which derived from a developing country context, i.e. Malaysia supplement prior studies and also reflect similar findings for studies which mostly undertaken in those aforementioned developed countries. This is a prominent contribution because it suggests that the effect of EO in international performance are "culture free" and are not limited to certain institutions development levels (Thanos et al., 2017). Accordingly, the study enlarges the geographical country base of origin of entrepreneurship-related studies (Wales et al., 2013). In practice, business practitioners of SMEs should be aware of the importance of EO to enhance international performance. For policymakers, the Government of Malaysia, in particular, could obtain a better understanding of the specific aspects of EO which the government agencies could facilitate in providing assistance to the internationalised SMEs.

## **Limitations**

The study has a number of limitations, which may provide the basis for refining further research. First, the study undertook a cross-sectional approach to data collection, and thereby the relationship tested in this research represents a snapshot in time (Jantunen et al., 2005). Although it is likely that the conditions under which the data were collected will remain essentially the same, there are no guarantees that this will be the case. Furthermore, EO may have further implications for performance in the long-term (Zahra, 1991), but as this is not a longitudinal study, this research was unable to evaluate and explore its effects. Future studies might assess the relationship between EO and international performance at different points or in a longitudinal framework. Furthermore, the data was collected from a single key informant in each company. A multiple informant approaches will greatly reduce the possibility of single-respondent bias and enhance the validity of the findings (McDougall et al., 2003).

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