


DECLARATION

'I hereby declare that have read this thesis and in our research is sufficient in terms of scope and quality. This project is submitted to Universiti Teknikal Malaysia Melaka as a requirement for completion and reward Bachelor Degree of Technopreneurship'

Signature : 
Name : En. Amir Bin Aris
Date : 28.6.16

Signature : 
Name : Dr. Yusri bin Arshad
Date : 29/6/2016

THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND
ORGANISATIONAL PERFORMANCE IN SMALL AND MEDIUM
ENTERPRISE (SMEs)

AZREEN HANIEZA BINTI HISHAMUDDIN

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In fulfilment of the requirements for the Bachelor Degree of Technopreneurship

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Universiti Teknikal Malaysia Melaka

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DECLARATION OF ORIGINAL WORK

I declare that this project entitled “The Relationship Between Entrepreneurial Orientation and Organisational Performance in Small and Medium Enterprises (SMEs)” is the result of my own research except as cited in the references. The project paper has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature : 

Name : AZREEN HANIEZA BINTI HISHAMUDDIN

Date : 30/6/2016

DEDICATION

Specially dedicated to my beloved family members

Thank you to my supervisor

En Amir Bin Aris

Thank you to my lovely future husband

Thank you to dear friends

For all the spirituals and moral support that had been given to me all the time.

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In the name of ALLAH s.w.t , the most gracious and the most merciful. All praise to Him for the strengths and blessings that He has given me to complete this thesis.

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ABSTRACT

Malaysia is heading towards having developed country status by 2020. To realise this national agenda, the country needs to further strengthen its economic development, growth, and well-being. One of the important sources for economic growth is the development of small and medium enterprises (SMEs). SMEs are acknowledged as a source of employment, economic dynamism, competition, and innovation. But their contributions to the country's economy are still comparatively low compared with the contribution of SMEs in many developed and developing countries. Research has shown that an entrepreneurial orientation is important for organisational performance in SMEs. Entrepreneurial orientation (EO) is a strategic orientation for Malaysian SMEs. EO is an independent variable and the outcomes produced by performance to be successful. The factors of EO which are innovativeness, proactiveness, and risk taking also being particularly effective for organisational performance in SMEs. The data were collected around Malacca by conducting 75 respondents from SMEs that operate in manufacturing, service, and other industries. The relationship between independent variables and dependent variables which are entrepreneurial orientation and also their factors dimension that affect organisational performance in SMEs has been analyzed through correlation and regression by using Statistical Package for Social Sciences (SPSS). Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel and if a negative correlation indicates the extent to which one variable increases as the other decreases. Regression is a statistical measure that attempts to determine the strength of the relationship between one dependent variable and independent variable. From the results, it is found out whether the hypotheses and objectives will be answered or not.

ABSTRAK

Malaysia sedang menuju ke arah memajukan negara menjelang tahun 2020. Bagi merealisasikan agenda negara ini, negara memerlukan kekuatan pertumbuhan pembangunan ekonomi dan kesejahteraan. Salah satu sumber penting bagi pertumbuhan ekonomi adalah dengan pembangunan perusahaan kecil dan sederhana (PKS). PKS diakui sebagai sumber pekerjaan, dinamisme ekonomi, inovasi dan persaingan. Tetapi sumbangan mereka kepada ekonomi negara masih lagi di tahap rendah berbanding dengan sumbangan PKS di negara-negara maju dan membangun. Penyelidikan telah menunjukkan bahawa orientasi keusahawanan adalah strategik penting bagi mempertingkatkan prestasi organisasi di dalam PKS. Selain itu, ia juga merupakan elemen strategik yang member kesan kepada prestasi di dalam sesebuah organisasi di PKS untuk menjadi lebih produktif dan maju ke hadapan. Antara faktor EO adalah inovatif, proaktif dan pengambilan risiko, yang mana ia juga merupakan faktor yang memberi kesan kepada prestasi organisasi di dalam kerjayaan PKS. Data yang telah di ambil di sekitar Melaka dengan 75 responden adalah terdiri daripada PKS yang beroperasi dalam sektor pembuatan, perkhidmatan dan lain-lain industri. Hubungan di antara pembolehubah bebas dan pembolehubah bersandar iaitu, orientasi keusahawanan dan juga faktor-faktor yang memberi kesan ke atas prestasi organisasi dalam PKS telah dianalisis melalui korelasi dan regresi dengan menggunakan Statistical Pakej Sains Sosial (SPSS). Korelasi adalah kaedah statistik yang menunjukkan sejauh mana dua atau lebih pembolehubah turun naik bersama-sama. Jika korelasi positif, ia adalah menunjukkan peningkatan di antara pembolehubah atau penurunan dalam selari manakala jika korelasi yang memberi kesan yang negatif, ia menunjukkan bahawa mempunyai satu penurunan pembolehubah. Regresi adalah kaedah statistik yang mana adalah untuk menentukan kekuatan sesuatu hubungan di antara satu pembolehubah bersandar dan pembolehubah bebas. Daripada keputusan kedua-duanya, ia akan menentukan sama ada hipotesis dan objektif akan tercapai mahupun tidak.

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LIST OF ABBREVIATIONS

EO	Entrepreneurial Orientation
INNO	Innovativeness
PRO	Proactiveness
RT	Risk Taking
OP	Organisational Performance
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Science

CHAPTER 1

INTRODUCTION

1.1 Introduction

Over the years, various organizations were created to development Small and Medium enterprises (SMEs) in Malaysia. Leading the pack was the Small and Medium Industries Development Corporation (SMIDEC) with its programmes and assistance for SMEs to achieve their funding and development needs. Things took a turn for the better in 2007, when National SME Development Council (NSDC) decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programmes across all related Ministries and Agencies. In others word, the SMEs is creating a vast amount of discussion among practitioners, researchers, educators and policy makers. By then, the characteristics and determinants of performance of SMEs have been focus of debate and interest (McKelvie & Wiklind 2010).

However, the SMEs sector in developing nations face many constraints as having a limited number of employees, insufficient financial resources, a lack of educational background, experience and lack of managerial expertise. In among others limiting factors (Samad 2007; Saleh & Ndubisi 2006; Abu Bakar et al. 2006; Mohd Aris 2006), that efforts are continuously being made to understand how the performance of SMEs could be developed and further enhanced since the recognized as one of the important engines of growth for a country's economy (Abu Kassim & Sulaiman 2010). Main for this research, is to focus on an examine by the impact on performance for SMEs in Malaysia that from the perspective on the entrepreneurial orientation (EO) and organizational performance in organizations. Entrepreneurial orientation are acknowledged as essential elements for organizational success (Fiedler 1996; Wang 2008; Yang 2008; Hannay 2009; Gul et al. 2012) .more effective entrepreneur that provides a strategic direction and encourages the motivation of employees (Hashim et al. 2012).

The entrepreneur is essential for organizational performance that are responsible for the attainment of strategic to organizational goals and at the same time, the entrepreneur also can be manage accountable to stakeholders of their organizations for creating the best possible products and services through by optimum utilization of the resources available (Gul et al. 2012). The entrepreneur orientation are always needed to improve and sustain organizational performance and to be allow entrepreneurs (the owners and top managers of SMEs in Malaysia) to better equip themselves to be more competitive in future. Next, after the introduction, this chapter will be discussing the background of the study and follow the problem statement, the scope of this study. The mostly highlights subtitle is the objective and research questions for this study. This chapter, Introduction presents a clear picture of the need for this study. Finally, in the next chapter, this study more explore on the literature for entrepreneurial orientation and organizational performance.

1.2 Problem Statement

Consequently the economic contribution of SMEs in these countries is currently far behind compared to developed countries (Altenburg & Eckhardt, 2006; Emine, 2012; Panday, 2012; Asian Productivity Organization 2011). Accordingly, low level of performance in SMEs sector is of the key issues in most of the developing countries through they have been expected to play a critical role in their economies and the current globalized competitive rivalry has multiplied the importance of the issue. The studies have been suggested that entrepreneurial orientation is critical for long term survival of the firm with higher level of performance. Although the literature has presented evidence of the greatest interest among the researchers and practitioners in the topics of relationship between entrepreneurial orientation and organizational performance. Despite the links identified between entrepreneurial orientation and performance (Moreno & Casillas 2008; Rauch et al. 2009; Wiklund 1999) a very few studies have been conducted to study the relationship between two variables simultaneously (Yang 2008; Todorovic & Schlosser 2007). Lastly, still a limited understanding of entrepreneurial orientation in Malaysia (Mohd Sam et al. 2012; Hashim et al. 2012)

1.3 Objective and research Questions

The following objectives drive into direction of this research:

- To study the relationship between entrepreneurial orientation and organizational performance of SMEs in Malacca
- To study the relationship between innovativeness and organizational performance
- To study the relationship between proactiveness and organizational performance
- To study the relationship between risk taking and organizational performance.

The following research questions needed to be answered:

- What are the relationship between Entrepreneurial orientation and organizational performance of SMEs in Malacca?
- What are the relationship between innovativeness and organizational performance?
- What are the relationship between proactiveness and organizational performance?
- What are the relationship between risk taking and organizational performance?

1.4 Research Hypotheses

The concept of EO and organizational performance in Malaysia SMEs, especially in Melaka. The researcher can described four hypotheses for their relationship:

H	Ho	HA
H1	EO is no related significantly and positively to organizational performance of SMEs	EO is related significantly and positively to organizational performance of SMEs
H2	Innovativeness is no related significantly and positively to organizational performance	Innovativeness is related significantly and positively to organizational performance.
H3	Proactiveness is no related significantly and positively to organizational performance	Proactiveness is related significantly and positively to organizational performance
H4	Risk Taking is no related significantly and positively to organizational performance	Risk Taking is related significantly and positively to organizational performance

Table 1: Research Hypotheses

1.5 Scope of study

This research focuses on the relationship between entrepreneurial and organizational performance SMEs especially in Melaka to their effects on SMEs performance. So it will be respondent from owner or the top manager, who tends to be the most knowledge person about the strategic direction of the firm (Keh et al.2007; Yang 2008) and the person who engages in entrepreneurial activities.

1.6 Limitation of study

This study used a survey method using a closed questionnaire. Study subjects responded only based on the answer. In addition, the measurement tool in this study consisted of items adapted from previous researchers. Although previous studies have highly reliable, but it is limited to the context of this study.

1.7 Significant of Study

The role of the small and medium scale enterprises (SMEs) has been critical and the sector is considered as the “backbone” of many economies (Wymenga, Spanikowa, Baker, konings, & Canton, 2012). An impressive empirical support has also been received for its importance for the developing countries in achieving their socio-economic development target (Subhan, Mehmood, & Sattar, 2013; Asian Productivity Organization, 2011). According to the Census 2010 (Department of Statistics, Malaysia, 2010), the population in Malaysia was 28.3 million in 2010, by comparing to 23.3 million in 2000. In addition, 91.8% were Malaysian and 8.2 % non – citizens. At the same time, the population is divided into a 67.4% majority from Bumiputera (Malays and others indigenous groups), 24.6% from Chinese, 7.3% are come from Indians and lastly 0.7%

from other races. SMEs contribute significantly to growth and development of the economy in Malaysia. Despite various types of support from the government, the SMEs in Malaysia still interface challenges and always difficulties in their business operations that some of the problems are lack of capabilities and resources, poor management and others (Hashim 2000; Saleh & Ndubisi 2006). These factors have affected their performance and their contribution to the country's economy in general.

In addition, this study examines the effect of the relationship between entrepreneurial orientation and organizational performance of SMEs in Malaysia. At the same time, it will effect in the context of SMEs in developing countries that still need to be validated. It is because the issue has become the focus of this study. Therefore, the purpose of this study is to test the proposed theoretical framework and hypotheses that represent the relationship between entrepreneurial orientation and organizational performance in Malaysia small and medium enterprises.

1.8 Definition of Concept and Operational

1.8.1 Organisational Performance

Organisational performance is the most important dependent variable for researcher concerned with almost all areas of management (Richard et al. 2008). It is because it explains how well an organization is doing (Obiwuru et al. 2011) and it refers to the ability and enterprises to achieve objects such as high profits, good quality products, a large market share, good financial outcomes and long –term survival, using relevant strategies for action (Koonts & Donnell 1993). It is an indicator of how well a firm realizes its objectives (ho 2008). Even though the literature in organizational research shows that organizational performance has been used extensively as a dependent variable and that many studies concentrated on identifying the factors that affect the

variability in performance outcomes, it is still an indistinct and “loosely defined” variable (Rogers & Wright 1998, p. 6; March & Sutton; Richard et al. 2008).

According to Lusthaus et al.(2002), the analysis of organizational performance is an important step in ensuring organizational performance has been used extensively as a dependent variable and that many studies concentrated on identifying the factors that affect the variability in performance outcomes, it is still an indistinct and “loosely defined” variable (Rogers & Wright 1998, p. 6; March & Sutton 1997; Richard et al. 2008). the authors concluded that each category of measure has its strengths and weaknesses in assessing overall organizational performance, what is certain is that no individual performance measure category is commonly accepted as the best proxy for overall performance measurement and further analysis need to be done for provide a better understanding of this construct (Carton & Hofer 2006).

1.8.2 Entrepreneurial Orientation

Lumpkin and Dess (1996) defined EO as “the process, practices and decision-making activities that lead to new entry” (p.771). More recently, Wiklund and Shepherd (2005) defined EO as the strategic orientation of a firm that captures specific aspects of entrepreneurial decision-making styles, methods and practices. Miller (1983) defined an entrepreneurial orientation as one that is involved in product market innovation, willing to take some risks and is first to come up with proactive innovations. A non-entrepreneurial orientation is characterized by a minimum level of innovations that not a risk taker and is a follower rather than a pioneer compared to the competitors (Miller 1983). But the definition of EO by Morris and Paul (1987) seems to suit the context of this study. They defined EO as the inclination of a company’s top management to take calculated risks, to be innovative and to display proactiveness in their approach to strategic decision making. the three main factors of EO introduced by Miller (1983) are risk taking, proactiveness and innovativeness. These key factors of EO have been

extensively used by researcher in previous studies (Covin & Slevin 1989; Lumpkin & Dess 1996; Moreno & Casillas 2008). Lumpkin and Dess (1996) added another two factors of EO which are competitive aggressiveness and autonomy. Although they suggested including these two as additional factors of firms EO, they agreed that innovativeness, proactiveness and risk taking are the key factors of EO. Conclusion, this research EO theory is the will provide further evidence on the level entrepreneurial attitude is not the one currently adopted by most scholars in the field of entrepreneurship studies but it is one of the earliest ones used to define EO. In this definition is regarded as decision to make by the top management of an organization. For the self-assessment approach by either the owners or the top managers of SME establishment to measure EO, this definition seem to represent and support the scope of this study.

1.9 Summary

This study examines the effect of the relationship between EO and organizational performance of SMEs in Malaysia. A brief introduction on studies and identified problem indicate the gap that needs to be filled. The research objectives and research questions provide guidance for the direction of this research. Justification for this study deliberated on the key point to this study that was needed and the significance of the contributions that this study might make. An outline of this study structure is providing guidance to readers on the direction of this study. In the next chapter, more to explores the literature on EO and organizational SMEs in Malaysia.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The objective of this chapter is to present a review of the literature by relating to the main variable in this study. Section 2.2 is present about Malaysia in Small and Medium Enterprises (SMEs) that included introduction of SMEs, new definition, scope of SMEs and development of establishment of SMEs. Section 2.3 discusses the literature on organizational performance, the dependent variable of this study. Section 2.4 presents the literature on Entrepreneurial Orientation (EO), its key factors and its application in research and practices. Section 2.5 is the previous studies examining links between Entrepreneurial orientation and organizational performance are not extensive, especially in the context of SMEs, the findings from those studies in various industries and business environments that provide the fruitful insights for developing a strong foundation of this study. Section 2.6 is the theoretical framework used in this study that was developed with the aim to study the relationship between EO and Organisational performance. Section 2.6 is totally for summaries for this chapter.

2.2 Malaysia SMEs

2.2.1 Introduction

As in other countries, small and medium enterprises (SMEs) in Malaysia are a very heterogeneous group. They involved in activities ranging from petty traders, grocery store operators, medium-sized contract manufacturers supplying parts and components to multinational corporations and professional services such as software firms or medical researchers selling their services or product to overseas markets. It is generally acknowledged that SMEs contribute significantly to the economic development of a country. Panitchpakdi (2006) described SMEs as a source of employment, economic dynamism, competition and innovation and SMEs also encourage the entrepreneurial spirit and the diffusion of skills. SMEs also can describe a major contributor to improving income distribution since they are established in a wider geographical are than large companies, including rural area. A businesses can be legally structured as entities registered either under the Registration of Businesses Act 1956 (Act 197) or Companies Act 1965 (Act 125).