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‘I hereby acknowledge that this project paper has been accepted as part fulfilment for the Degree Bachelor of Technopreneurship with Honours’.

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THE INFLUENCE ENTREPRENEURIAL ORIENTATION TOWARDS BUSINESS
PERFORMANCE AMONG SMEs IN MALAYSIA

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STUDENT'S DECLARATION

'I hereby declare that the work in this PSM is my own except for quotations and summaries which have been duly acknowledged. The thesis has not been accepted for any degree and is not concurrently submitted for award of other degree'.

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DEDICATION

To my beloved family especially my parents thank for the education, teaching and give love completely from the uterus until now. I love you. See you later in paradise.

In Sha Allah.

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ABSTRACT

The economic growth of developing countries can be sustained by the expansion of private sector, as they are the engine of economic growth. Many scholar have argued that Entrepreneurial Orientation is one of the important factors which contribute to the business performance of SMEs. However, the recent literature provides contradictory findings about the relationship between Entrepreneurial Orientation (EO) and business performance. Thus, this study aimed to investigating the level of Entrepreneurial Orientation (EO) of SMEs in Malaysia and relationship with business performance. This study used quantitative methods to measure the EO in influencing business performance. A series of questionnaires will be distributed to respondents to identify their perceptions on the influences Entrepreneurial Orientation towards business performance among SMEs in Malaysia. The analysis was conducted using the Statistical Package for Social Sciences (SPSS) with a total of 135 respondents. Finally, among the dimension of EO, innovativeness shows high influence on business performance.

Keywords : Entrepreneurial Orientation, Business Performance, Uni-dimensional and Multi-dimensional.

ABSTRAK

Pertumbuhan ekonomi negara-negara membangun boleh dikekalkan oleh pengembangan sektor swasta, kerana mereka adalah enjin pertumbuhan ekonomi. Banyak pengkaji telah berhujah bahawa Orientasi Keusahawanan adalah salah satu faktor penting yang menyumbang kepada prestasi perniagaan PKS. Walau bagaimanapun, sastera baru-baru ini menyediakan penemuan yang bercanggah tentang hubungan antara Orientasi Keusahawanan (EO) dan prestasi perniagaan. Oleh itu, kajian ini bertujuan untuk menyiasat tahap Orientasi Keusahawanan (EO) PKS di Malaysia dan hubungan dengan prestasi perniagaan. Kajian ini menggunakan kaedah kuantitatif untuk mengukur EO dalam mempengaruhi prestasi perniagaan. Satu siri soal selidik akan diedarkan kepada responden untuk mengenal pasti persepsi mereka terhadap pengaruh Orientasi Keusahawanan terhadap prestasi perniagaan di kalangan PKS di Malaysia. Analisis ini dijalankan dengan menggunakan Statistical Package for Social Sciences (SPSS) dengan sejumlah 135 responden. Akhir sekali, antara dimensi EO, inovasi menunjukkan pengaruh yang tinggi terhadap prestasi perniagaan.

Kata kunci: Orientasi Keusahawanan, Prestasi Perniagaan, Uni-dimensi dan multi-dimensi.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter explain about the introduction, background of study, problem of statement, research questions, research objectives, significant of study and the summary that explained more details.

1.2 Background Of Study

Small and Medium Enterprises (SMEs) is the backbone of economic growth of an economy in spurring industrial development. Research today has shown that SMEs face many challenges and barriers to competition in the global market. For example, Saleh & Ndubisi, (2006) explains that in the global environment, SMEs face challenges for lack of financing, low productivity, lack of management capacity, and lack of access to technology and management. According to Fan, (2003) SMEs is the premier provider in most countries, especially creating new jobs and a main source of innovation at the same time creating new technology products, competitive and efficient markets to reducing poverty.

SMEs in the services sector consist of 90% establishments. In addition, 6% are in the manufacturing sector. Meanwhile, with 3% in the construction sector and

the remaining 1% are in the agricultural sector and 0.1% in mining and quarrying sector (SME Corp. Malaysia, 2011). In 2015, SMEs accounted for 65.5% of total employment and 17.6% of total exports. Although SMEs show a positive achievement in recent years, but their contribution to the overall Malaysian economy is smaller than to SMEs in developed countries and other high-income countries. The Government has launched the SME Master Plan in 2012 with the goal setting to increase development of SMEs in line with Malaysia's passion to become a high income economy by 2020 (SME Corp. Malaysia, 2011)

In addition, to keep high SMEs performance, entrepreneurial orientation (EO) is a part of the Entrepreneurial talent. According, Lumpkin & Dess, (1996) entrepreneurial orientation become one of the criteria to be successful firm due to the part of entrepreneurial talents are describe by entrepreneurial orientation. Entrepreneurial orientation (EO) recently is the most important factor for the growth and profitability of the firm. Previous research has shown that high growth is correlated with the entrepreneurial orientation of the firm. Thus, the growth can be attributed to innovation, proactive and risk-taking behaviour of the firm, which refers to an entrepreneurial orientation (EO) dimensions (Zainol & Ayadurai, 2011).

The relationship between EO and business performance has been extensively discussed conceptually and empirically in previous studies and majority were supported a positive relationship (Fairoz, F.M, Hirobumi, T, & Y, 2010). It implies that the relationship among various dimensions of EO and performance yield mixed results raising a question that does the EO positively or negatively related with business performance. Further there is a dearth of literature between EO and business performance in developing countries in Asia (Zainol & Ayadurai, 2011; Kiriri, 2005)

This study attempts to investigate the influence of the entrepreneurial orientation EO with five dimension towards business performance among SMEs. By analyzing the relationship between EO and business performance, this study provides useful information to SMEs in the manufacturing sector especially in textile industry and food & beverage industry.

1.3 Problem of statement

As a result of the recent world economic crisis, there has been a tremendous change in the operational climate of businesses especially small and medium enterprises (SMEs). Some business operators were able to adapt their organisations to the prevailing situation, while others were not. As a result of this, they were forced out of business. SMEs face many challenges that hinder their growth or cause a permanent closure (Funmilola, Sola, & Olusola, 2013)

Entrepreneurial orientation (EO) is a firm-level strategic orientation which captures an organization's strategy-making practices, managerial philosophies, and firm behaviours that are entrepreneurial in nature. Entrepreneurial orientation has become one of the most established and researched constructs in the entrepreneurship literature. According to Adersen & Samuelsson, (2016) the relationship between entrepreneurial orientation and the various dimensions of performance still needs further examination in the context of small and medium-sized enterprises. Therefore, the primary objective of this study is to determine the level of entrepreneurial of small businesses in the Malaysia and to establish the influence of this orientation on their business performance.

However, most of this studies were conducted outside Malaysia. Thus, it is very important to conducted an empirical study to analyse the entrepreneurial orientation and business performance in the Malaysian context. The purpose of this study is to investigate the relationship between the EO of SMEs in the Malaysia and their level of business performance. EO assessed in terms of five dimensions, namely pro-activeness, innovativeness, competitive aggressiveness, autonomy and risk-taking, while business performance assessed in terms of profitability, growth and goal achievement. The primary objectives of this study are to establish the level of entrepreneurial orientation factors and business performance in the Malaysia and to establish the influence of this orientation on their business performance.

1.4 Research Questions

In seeking to achieved objectives research, the following questions were highlighted to be the framework providing guideline for the research work.

- I. What is the relationship between uni-dimensional in entrepreneurial orientation and the business performance?
- II. What is the relationship between multi-dimensional in entrepreneurial orientation and the business performance?
- III. Which of entrepreneurial dimension influence the business performance?

1.5 Research Objectives

The objectives of the study are mentioned as follows.

- I. To identify the relationship between uni-dimensional in EO and the business performance.
- II. To identify the relationship between multi-dimensional in EO and the business performance.
- III. To determine EO dimension that influence the business performance.

1.6 Scope of study

The scope of this study is focus on entrepreneurial orientation and business performance of Small and Medium Enterprise (SMEs) in the manufacturing sector especially in food & beverage industry and textile industry. The target respondent state in Selangor, Wilayah Persekutuan, Melaka and Johor.

1.7 Significant of Study

Considering the service of small and medium enterprises to their consumers, it is very important and virtually imperative for effective business performance to be clearly spelled for the existing and intending owners. It is the need for this research to make a viable and purposeful rectification so as to clearly identify the influence of entrepreneurial orientation towards business performance for small and medium enterprises (SMEs) that should be in decision relating to establishment.

The research work contributed and lead to more effective decision making by owners /managers of small and medium enterprises (SMEs) towards business performance. It can equally provide a useful guide for prospective owners of small and medium enterprises who may choose self-employment as a career. This study also form a body of literature in the aspect of entrepreneurial orientation on the business performance of small and medium enterprises.

1.8 Summary

In this chapter explain about the background of the studies followed by research questions and research objectives contribute for entrepreneurial orientation and business performance in Malaysia especially SMEs. We described the practical implications and definition about SMEs entrepreneur. Besides that, This study examines the influences entrepreneurial orientation towards business performance among SMEs. The purpose of the study was to determine the relation between entrepreneurial orientation and business performances among SMEs selected manufacturing industries.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

By the critical review of the literature was necessary to help the researcher to develop a thorough understanding of insight into previous work that relates to the researcher questions and objectives. The review set the research in contact by critically discussing and referencing work that has already been undertaken by drawing out key points. This chapter discuss about the influences entrepreneurial orientation towards business performances among SMEs in Malacca. The researcher obtains literature review from several sources such as website, book, journal and article.

2.2 Entrepreneurial Orientation

Entrepreneurial orientation (EO) is a firm-level strategic orientation which captures an organization's strategy-making practices, managerial philosophies, and firm behaviours that are entrepreneurial in nature. The most widely used definition of EO is based on work by (Miller, 2011) developed further by (Covin & Slevin, 1989). Organization has an EO when it is simultaneously risk taking, innovative and

proactive. Further refined Miller's definition by stating that, "the entrepreneurial orientation of a firm is demonstrated by the extent to which the top managers are inclined to take business-related risks (the risk-taking dimension), to favour change and innovation in order to obtain a competitive advantage for their firm (the innovation dimension), and to compete aggressively with other firms (the proactiveness dimension) (Miller, 2011)

Most of the subsequent studies were adopted all the dimensions or several of them as per the requirement. According Quince & Whittaker, (2003) investigated the relationship between EO (innovativeness, pro-activeness and risk-taking) and performance of 142 high-tech firms and found that both pro-activeness and innovativeness were weakly positively related to employment growth and innovativeness was positively related to turnover growth. Cited by (Lim, 2008) investigate the relationship between EO and the performance of 137 service businesses. The model consisted of autonomy, innovativeness, risk-taking and competitive aggressiveness and Competitive aggressiveness was identified as the only dimension of EO which has a significant impact on the performance. This means that the higher the EO in terms of competitive aggressiveness, the higher the performance of the organization.

Covin & Slevin, (1989) as cited by (Lim, 2008) suggested that EO is related to performance among small firms in hostile environments. (Lim, 2008) incorporated four dimensions; autonomy, innovativeness, risk-taking and competitive aggressiveness and confirmed the positive relationship between EO and performance. By expanding the number of dimensions to measure EO, (Lumpkin & Dess, 1996) identified five dimensions of EO: autonomy, innovativeness, risk taking, pro activeness, and competitive aggressiveness that independently and collectively define the domain of EO (Covin, Jeffrey G.; Wales, William J., 2012). Meanwhile, (Knight, 1997) defines EO as the firm's propensity to engage in innovative, proactive, and risk-seeking behaviour in order to achieve strategic and performance objectives.

Researchers have argued that EO is a uni-dimensional construct (Covin, Jeffrey G.; Wales, William J., 2012; Covin & Slevin, 1989) Another argument

explained that EO is a multidimensional construct in which risk taking, innovativeness, pro activeness, competitive aggressiveness, and autonomy are treated as independent behavioural dimensions (Lumpkin & Dess, 1996). The uni-dimensional and multidimensional views of EO represent distinct constructs rather than competing perspectives on the same construct (Covin & Miller, 2014; Covin, Jeffrey G.; Wales, William J., 2012)

In line with these definitions, EO refers to the willingness of a firm to be innovative in order to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more proactive than competitors toward new marketplace opportunities (Wiklund & Shepherd, 2015; Zahra & Covin, 1995; Lumpkin & Dess, 1996). Therefore, EO is classified as a critical organisational process that helps a firm to survive and improve its organisational performance (Khalili, Nejadhussein, & Fazel, 2013; Tajeddini, Trueman, & Larsen, 2006; Miller, 2011)

2.3 Business Performance

Definition of the business performance of the traditional reference to the cost, the resulting quality, and speed of product produced. Although the research into determinants of business successful performance is not a recent topic in the academic literature, it constitutes a field of study that involves great complexity due to of the lack of consensus on a number of relevant aspects such as the unit of analysis, the selection of a clear and operational definition, and the theoretical framework to be adopted by the researcher (Combs, Crook, & Shook, 2005). The large heterogeneity existing among firms is the main reason, as their dissimilar features and vastly differing management models show.

Simultaneously, entrepreneurs consider business success in very different ways, depending on both their motivation and their business 195 SMEs in the services industry objectives. Additionally, these objectives may change or evolve over time, and therefore so may the measure of success (Camisón & Cruz, 2008).

Numerous and varied proposals can be found in the academic literature regarding the concept and measure of business performance.

A number of authors have identified successful companies by means of qualitative variables, such as the capacity for innovation, satisfaction of employees/customers, entrepreneur satisfaction with the results and growth of the company, and the competitive position achieved. However, most of the studies published use quantitative indicators, either economic indicators (in terms of profitability or productivity of the company), financial indicators or indicators of growth rate (Hill & Jones, 2011; Covin et al., 2006).

Authors in this field have frequently used various sources to obtain data that would allow them to measure the competitive success of the company and to enable them to generally distinguish between objective and subjective sources (Camisón & Villar- López, 2014). The latter would be based on the perceptions of individuals concerning their business results. Objective data are very complicated to obtain since respondents are reluctant to release sensitive information to outsiders (Dess & Priem, 1995). For that reason, Varadajan & Ramanujam, (1990) considered the use of subjective sources to be more appropriate because the information derived from business accounting systems may introduce some bias in the valuation of the company through the effect of their legal and tax considerations.

By contrast, subjective sources to measure organizational results are more useful and reliable when SMEs are analysed, since these businesses may observe temporary reductions in their results without this being indicative of less successful performance (Covin, Jeffrey G.; Wales, William J., 2012). Based on these assumptions, the competitive success of a company can be defined as the achievement of a favourable competitive position that leads to superior and sustainable economic performance (Porter, 1991)

Variables generally considered as indicators of the economic business performance are the increase or maintenance of the company's market share, the profitability, and the growth (Wiklund & Shepherd, 2015). Whereby this last indicator has become one of the most prominent goals in business research. If a company maintains its growth rate in a balanced way, it can bring a sustainable

development, which is able to guarantee the survival of the company. However, unlike other studies where business growth is analysed as a determinant of increasing business competitiveness, we propose to investigate its explanatory factors.

2.4 Business performance factors in the context of SMEs

Regarding the study of the determinants of business performance in SMEs, a variety of explanations have been provided, depending on the research approach used comes from the Economic or of Business Theory (Storey, 2000) However, there seems to be agreement in that the set of explanatory factors of the competitive success of the company and its growth can be divided into three categories (Wiklund & Shepherd, 2015; Porter, 1991)

2.5 Dimensionality of the EO construct and the contingency framework

According to Miller, (2011) an organization has an EO when it is concurrently risk taking, innovative and proactive. In this respect, entrepreneurship is a uni-dimensional construct. After adding the dimensions competitive aggressiveness and autonomy (Lumpkin & Dess, 1996) have proposed that EO is a multidimensional construct. This means that the EO dimensions may vary independently, depending on the environmental and organizational context.

Therefore an organization has an EO when it scores high on some of the EO dimensions, not on a particular dimension or combination of dimensions. Furthermore, the influence of EO on performance is also context specific. Although only focusing on the dimensions by (Miller, 2011) have shown that the EO dimensions show high correlations and each having their own influence on performance. They have therefore shown that the EO construct is in fact multidimensional.

2.5.1 Innovativeness

According Lumpkin & Dess, (1996) defined innovativeness as a firm's tendency to involved and support new ideas, something new, testing, and creative processes that may result in new products, services, or technological processes. Innovativeness refers to willingness to advanced from existing technologies or practices and shows that a firm is putting effort into introducing new products to the market (Zahra S. , 1993). Innovativeness is key for maintaining a company's viability because it is the source of ideas that lead to improvements and new products and thus helps to maintain a competitive company (Lumpkin & Dess, 1996)

In addition, the rapid changes occurring in the market, technologies changes require innovativeness to maintain competitive advantage is crucial. Innovativeness is key to success because it can be a source of significant progress and growth for a firm (Lumpkin & Dess, 2001). Innovativeness refers to moving from established practices and technologies due to a propensity to engage and support new ideas through experimentation and creative processes which leads to new products and services (Wiklund & Shepherd, 2015; Lumpkin & Dess, 1996). New opportunities can be pursued through a high rate of technological and product market innovation (Wiklund & Shepherd, 2015)

2.5.2 Risk – taking

Organizations engaging in radical innovations must be willing to take financial and business risks to be successful (Kollmann & Stöckmann, 2010). When organizations face uncertainty, risk taking may give the organization bias to take action (Lumpkin & Dess, 2001). However, when considering exploitative innovation, the fast decision making that is associated with risk taking contradicts the in-depth analysis and negotiations that are needed to identify weaknesses and potentials of existing technologies and products (Kollmann & Stöckmann, 2010). The amount of risk that an organization takes is therefore, depending on the organizational context, important when it comes to innovation success. Risk-taking is exploring on

opportunities with a substantial likelihood of producing losses or significant performance discrepancies (Covin, Jeffrey G.; Wales, William J., 2012).

Besides that, risk-taking as a dimension of entrepreneurial orientation refers to a firm's inclination to engage in high risk projects in order to achieve firm objectives. This involves management taking bold decisions as opposed to cautious decisions. (Certo, Moss, & Short, 2009). Risk-taking includes the incurrence of heavy debt, the carrying on of other risk in order to seize an opportunity, or the commitment of significant resources to a project in order to ensure high returns (Certo, Moss, & Short, 2009). The adoption of risk-taking is evident within a firm where there is a willingness to commit large resources to a project where the cost of failure maybe high and where the outcome is unknown in the interest of high returns (Lumpkin & Dess, 1996). A risk-taking firm that aims to be the first to creatively satisfy demand in emerging markets or to introduce new products or services in the market indicates a high level of entrepreneurial orientation (Frank, Kessler, & Fink, 2010)

Risk-taking refers to the tendency to support projects with uncertain expected returns (Walter, Auer & Ritter, 2006). Organizations and their executives face three types of risk, which are business risk, financial risk, and personal risk (Lumpkin & Dess, 2001). Business risk is the risk of entering untested markets, or committing to unproven technologies. Besides that, financial risk is committing a significant amount of resources for growth (Lumpkin & Dess, 2001). Personal risk is related to a person, normally an executive, who decides to favour a certain strategic course of action and failure in the decision may lead to personal consequences (Lumpkin & Dess, 2001)

2.5.3 Pro-activeness

Pro-activeness, refers to taking initiative, anticipating and carrying out new opportunities, and creating new markets or participating in emerging ones, is an important dimension of EO (Lumpkin & Dess, 1996). Besides that, proactive firms