EFFECT OF ENTREPRENEURIAL ORIENTATION, LEARNING ORIENTATION, STRATEGIC IMPROVISATION ON SME PERFORMANCE

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Abstract- The purpose of this research is to study the relationship between entrepreneurial orientation, learning orientation, strategic improvisation and performance of small-medium enterprises (SMEs). Based on the theoretical consideration, a model was proposed to examine these relationships. Quantitative survey method was used and data were collected from the owner/managers who were randomly selected from a sampling frame of registered SMEs. A total of 368 usable responses were received from a total of 1920 distributed questionnaires, giving a response rate of 19.2 percent. Partial Least Square (PLS) structural equation modelling (PLS version 2) was used for the data analysis. The findings revealed that significant association exists between entrepreneurial orientation, learning orientation, strategic improvisation and performance of small-medium enterprises (SMEs)

Keywords- Entrepreneurial Orientation, Learning Orientation, Strategic Improvisation Performance, Small and Medium Enterprises (SMES)

I. INTRODUCTION

Based on Strategic Action Plan Development 2016-2025, as part of the drive towards equitable economic development, Micro, Small and Medium Enterprises (MSMEs) are of key importance due to the sector's economic dominance in terms of its share of total establishments (between 88.8% and 99.9%) and its share of total employment (between 51.7% and 97.2). In Malaysia SMEs create employment opportunities, stimulate entrepreneurial capabilities and innovation, and contribute significantly to the gross domestic products (GDP) [25].

Conversely, studies have shown that many SMEs failed due to their inability to cope with this uncertainty in the environment. According to [2] one of the key issues highlighted was the lack of managerial and entrepreneurial. SMEs also face many constraints such as technological backwardness, low level of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology and poor product quality [18]. Therefore, SMEs in Malaysia need to movement their operations in order to support the aim of achieving a high income economy by 2020 which is excepted raise the SMEs' GDP contribution from 32 percent (2012) to 40 percent by 2020, and their share of employment and exports to 62 percent (59 percent in 2010) and 25 percent (19 percent in 2010) respectively (SME Master plan 2012-2012). Therefore the objective of this study is to determine the effects of entrepreneurial orientation, learning orientation, strategic improvisation on SMEs performance.

II. LITERATURE REVIEW

2.1. Entrepreneurial orientation and SME performance

Based on [57], entrepreneurial activities are increasingly regarded as important to firms, but in today's complex global economy, entrepreneurship has become even more crucial towards obtaining a sustainable competitive advantage. According to [58], most researchers [7]; [28]; [41]; [44]; [47] agree that EO is a combination of three dimensions: innovativeness, proactiveness and risk-taking. [47] define EO as an entrepreneurial attitude that fundamentally involves alertness to discoveries and seizing opportunities ability. The significance of entrepreneurial orientation to the persistence and performance of firms has been acknowledged in the entrepreneurship literature [27].

[33] indicated that EO is associated to superior export performance especially for small firms such as result found positive relationship between EO and performance in hostile business environment in SMEs in [26] and alike finding was conveyed among Sri Lankan SMEs [19]; [25]. [60] also found positive effect of EO on SME performance in North-east of China. Meanwhile, in Malaysia perspectives the study found significant relationship between EO and performance [1] ;[2] therefore based on the above discussion, the following hypothesis is posited:

H1: Entrepreneurial orientation has a significant relationship with SME performance.

2.3 Learning orientation and SME performance

[8] states that learning orientation, is a form of knowledge-based resource capability and accepted as

the most important method that forms the basis for successful innovation that will determine the success of an organization.Even though the effect of EO on firm performance is influenced by firm size and national culture [45], the learning orientation also plays a substantial role in enhancing firm performance [56]. Based on [50], learning orientation is the characteristic that reflects the importance a firm places on understanding the relationship with its environment relative to both customers and competitors. It consents the firm to positively exploit the opportunities and neutralizes the threats in this environment since LO assists the firm to understand the needs of customers better than its competitors [16]; [51]. Based on [52], LO comprised of commitment to learning, open-mindedness and shared vision.

Results of previous studies also found that LO contributes directly and indirectly to firm performance [59]; [6], [42]; [37]. [43] discover the interrelationships of market orientation, learning orientation, and innovativeness are effective on performance enhancement.[36] found that learning orientation has a direct relationship on process innovation and, in turn, impacts firm performance. Inservice industry, [37] found the competitive advantage moderates the relationship between LO and business performance in pure service and service-reliant organizations. In other hand, [23] found LO does not significantly influence firm performance in Veitnam marketing communication. In a similar vein, [49] LO has no significant impact on the performance of the firm; they also concluded, LO supports market orientation and thus, impacts the performance of the firm. Based on the mix findings on the above discussion, the following hypotheses were formulated:

H2: Learning orientation has a significant relationship with SME performance.

2.4 Strategic Improvisation and SME performance

Improvisation is also seen as a new paradigm for strategic choice [17], an important construct for a firm's strategic performance [39], a strategy of emergent learning [40], and a key part in organizational learning and strategic renewal [54]. [38] defined improvisation as the ability to spontaneously recombine knowledge, processes and structure in real time, resulting in creative problem solving that is grounded in the realities of the moment meanwhile[29] describe improvisation as attempting to develop something new and useful to the situation, although it does not always achieve this.

Previous studies on the relationship between improvisation and performance were mixed or unclear [15]; [5], [4], [31]. From the study[2] found organizational improvisation positively affects firm performance. On the other hand, [35] claimed there is no direct relationship between entrepreneur improvisational behaviour and new venture performance. In a similar vein [39], claimed that there is no association between improvisation and satisfactory project outcomes. [30] claimed that factors, like environmental turbulence and real-time information served as moderating factors in the relationship between improvisation and product effectiveness. [34] admit, research on organizational improvisation is still scarce therefore resulted on conceptualizing opposite views of. Due to the limitation of studies regarding improvisation in organizations, the third hypothesis is posited:

H3: Strategic improvisation has a significant relationship with SME performance

III. RESEARCH METHODOLOGY

Data collection was conducted by survey. The unit of analysis is organization. The respondents are among manager or owner of SME because they are the main informants of the SMEs business. In this research, a total of 368 useable questionnaires were collected from the respondents. The population will be restricted to only SMEs in the east coast of Malaysia: Kelantan, Terengganu and Pahang.

The questionnaires were adopted and adapted from a few selected questionnaires and measured with 5 point Likert-scales ranging from strongly disagree to strongly agree except for SME performance. The entrepreneurial orientation was from [13] meanwhile the LO questions were adopted from past researchers such as [52] and for strategic improvisation questions was based on [54]. For EO, in term of performance, the questionnaire was adopted from [58] who suggested that performance measures should include growth and financial performance. In analyzing the data, Statistical Package for the Social Sciences (SPSS) version 20 and Structural Equation Modeling Using Partial Least Squares (SEM-PLS) version 2 were used [24].

IV. FINDINGS

To measure the research model developed in Figure 1, Smart PLS 2 was used to analyze the data collected. As stated by [9].

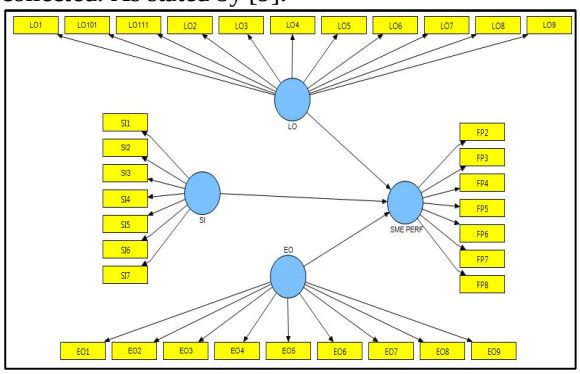


Figure 1: Research Model

4.1 Assessment of the Measurement Model

With regards to assessment of the measurement model, confirmatory factor analysis (CFA) was conducted to test the item reliability, convergent validity, and discriminant validity of the measurements scales. According to [21] the loading of 0.7 and above is an ideal indicator. Based on [24],loading 0.7 or higher are considered highly satisfactory, while loadings value of 0.5 is regarded as acceptable the manifest variables with loading value of less than 0.5 should be dropped [10]. As shown in Table 1, only item loadings of 0.6 and above were considered. Thus the internal consistency was achieved. The convergent validity exists when the indicators of one construct converge or share a higher proportion of variance. Composite reliability (CR) values were above 0.70 [11]; [22]; [46] and the average variance extracted (AVE) values meet the minimum criteria of 0.50 [24]; [48]. In this study, the CR value is ranged 0.917 to 0.930 and AVE also ranged 0.634 to 0.736.

Table 1: Result of Measurement Model

Constructs	Items	Loadings	AVE	CR
Entrepreneurial Orientation	EO6	0.743	0.736	0.917
	EO7	0.903		
	EO8	0.895		
	EO9	0.880		
Learning orientation	LO2	0.795	0.690	0.930
	LO3	0.811		
	LO5	0.809		
	LO6	0.865		
	LO7	0.866		
	LO8	0.836		
Strategic Improvisation	SI1	0.759	0.729	0.930
	SI4	0.798		
	SI5	0.882		
	SI6	0.901		
	SI7	0.918		
SME performance	FP2	0.685	0.634	0.924
	FP3	0.805		
	FP4	0.790		
	FP5	0.814		
	FP6	0.803		
	FP7	0.813		
	FP8	0.852		

Table 2: Results of Construct

	EO	LO	SI	SME PER
Entrepreneurial Orientation (EO)	0.8578			
Learning Orientation (LO)	0.8098	0.8309		
Strategic Improvisation (SI)	0.8143	0.7985	0.8538	
SME Performance (SME PER)	0.7177	0.7173	0.6986	0.7962

Note: Diagonals are the AVE while the off-diagonals are the squared correlations

Discriminant validity can be examined by comparing the squared correlations between constructs and variance extracted for a construct [20]. In table 1, the test results indicate that there is adequate discriminant validity since the diagonal elements are significantly greater than the off-diagonal elements in the corresponding rows and columns.

Table 3: Result Reliability of Test

Constructs	Cronbach alpha	Loading Range	No of items
Entrepreneurial Orientation	0.878	0.743 - 0.903	4
Learning Orientation	0.910	0.795 - 0.865	6
Strategic Improvisation	0.905	0.759 - 0.918	5
SME Performance	0.903	0.685 - 0.852	7

Finally, in order to testify the reliability of the variables, Cronbach's alpha was used to validate the reliability of the variables and the minimum cut off point must above .60 [14]. Thus, all the internal reliabilities of scales were ranged from 0.878 to 0.910 (see Table 3) which was clearly acceptable. Hence, the measurement model was satisfactory and provided sufficient evidence in terms of reliability, convergent validity, and discriminant validity.

4.2 Assessment of the Structural Model.

Path analysis was used to test the hypotheses generated from the research model. Based on [3], path coefficients signify the strengths of the relationships among the independent and dependent variables, the highest β value symbolizes the strongest effect of predictor (exogenous) latent variable towards the dependent (endogenous) latent variable. Using a bootstrapping technique with a re-sampling of 500, the path estimates and t-statistics were calculated for the hypothesized relationships.

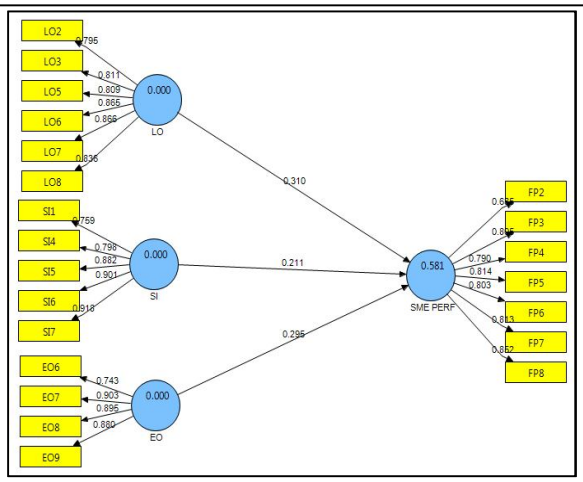


Figure 2 Path Analysis Result.

Table 2 Result of Hypothesis Testing

Hypothesis	Relationship	Coefficient	t-value	Decision
H1	Entrepreneurial orientation -> SME Performance	0.295	4.647	Supported
H2	Learning orientation-> SME Performance	0.310	5.229	Supported
H3	Strategic improvisation-> SME Performance	0.211	3.701	Supported

In this study, three hypotheses were generated from the research model. The R^2 for this model is 0.581, meaning that 58.1 percent of the variance can be explained in the extent of entrepreneurial orientation, learning orientation and strategic improvisation (see Figure 2). Based on [12] for a good model, the value of R^2 of endogenous latent variable should be more than 0.26.

Path coefficient and t-value results show that H1 are significant (t-value = 4.647*). It indicates that entrepreneurial orientation has a significant relationship with SME Performance. Moreover, t-value results show that H2 are significant (t-value = 5.229*) thus the result indicates that learning orientation has a significant relationship with SME Performance. Likewise, t-value results show that H3 are significant (t-value = 3.701**). It indicates that strategic improvisation has a significant relationship with SME performance. In summary the result of this study show that entrepreneurial orientation, learning orientation and strategic improvisation (SI) positively influence the SMEs performance at significant level of $p<0.05$ (See Table 2).

CONCLUSION

Results from this study ascertained that significant relationship between entrepreneurial orientation, learning orientation and strategic improvisation with performance of SMEs. Thus it can concluded that entrepreneurial orientation, learning orientation and strategic improvisation as important factors for successful SMEs performance. Due to the competitive environment such as globalization, dynamic technology, competitor competencies the owners/managers need to create environments that encourage the entrepreneurial orientations (innovativeness, pro-activeness, risk taking), learning orientation (commitment to learn, share vision, open mindedness) and strategic improvisation on adaptation embellishments with limited resources.

Undeniable the role of small and medium enterprises to the economic development and the entrepreneurs also play a vital role in the industrial development of a country. Therefore in order to succeed SMEs owner need to nurture more learning and strategic improvisational actions that can create competitive advantage, stimulate and respond any changes to cope dynamically in ever business changes.

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