

Effective Success Factor of Malaysian SMEs Firm Performance Influence by Entrepreneur Personal Characteristics, Entrepreneurial Orientation and Government Support Program

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Abstract: This research investigates the relationship between entrepreneur's personal characteristics and entrepreneurial orientation towards their firm performance influenced by government support program received among SMEs in Malaysia. The existence theory suggests that entrepreneur's internal personality the orientation and the support received from government plays an important role in determining the performance of their firms. Data were collected through a national survey from owners and senior managers of small-to medium-sized Malaysian companies. This study discusses different types of personal characteristics of entrepreneurs with specific analysis on the influence of entrepreneurial orientation and received assistance from government support program on firm's performance.

Key words: Personal characteristics, entrepreneurial orientation, government support program, firm performance, SMEs

INTRODUCTION

Many studies have shown the positive impact of personal characteristics of entrepreneurs such as need for achievement and need for cognition towards the business success in different contexts (Sieh Lee, 1990; Miner *et al.*, 1994; Leone and Dalton, 1988). But as only personal characteristics are not sufficient for the superior business performance. The studies have pointed out the contribution of many other factors that have either a mediating or moderating impact in the relationships between the entrepreneur's personal characteristics and firm performance. For example the strategic orientation is given much attention in the literature of entrepreneurship because of its important role and contribution towards the success of businesses (Hoq and Chauhan, 2011; Barney, 1991).

There are many important dimensions of strategic orientations but this present study is more focused on entrepreneurial orientation. Because the prior studies have shown the positive impacts of these dimensions on the firm performance in different countries including Malaysia as well (Awang *et al.*, 2009; Krauss *et al.*, 2005; Krieser *et al.*, 2002). This present study will look at the mediating role of these entrepreneurial orientation as well in the relationship between the entrepreneur personal

characteristics and firm performance moderate by government support program in the context of Malaysian SMEs. This study thus argues that entrepreneurial orientation mediate the influence of entrepreneur personal characteristics towards the firm performance. Thus, means that these orientations act as a mechanism through which the personal characteristics of entrepreneurs impact on the firm performance. Besides the mediating role of entrepreneurial orientations the present study will also examine the moderating contribution of government support programs for firm performance Malaysia.

Entrepreneurial orientation: The entrepreneurial orientation is considered as one of the important type of strategic orientation which is generally related with the strategy making process. The entrepreneurial orientation enables the entrepreneurs to develop and implement very successful strategies in order to gain the outcomes in the long run of business. The entrepreneurial orientation is seen in every type of businesses but its importance is considered more in small and medium size businesses because these types of businesses usually operate in an unpredictable and uncertain environment which needs a careful strategy making process. Only a careful strategy making process provides outstanding results in future. By careful strategy making the entrepreneurs can more focus

on the ways and approaches to deal with the uncertainty of the external business environment and to meet their customer's needs and wants in all possible ways. The next section discusses strategic orientation and entrepreneur's personal characteristics.

Entrepreneur's personal characteristics

Need for cognition: The need for cognition contributes a lot in the quality decision making process of an individual (Cacciopo and Petty, 1982). When individuals engage in and enjoy thinking then they are more willing to make cognitive effort to solve a complex task by searching extensive information and through an accurate and elaborated cognitive processing. The prior researches have revealed that individuals with high need for cognition have better abilities for logical reasoning and performance and are more effective in the tasks of information processing in order to solve problematic issues (Cacciopo *et al.*, 1996). Curseu (2006) also found the positive association of need for cognition with rational decision making and also with time to analyze an extensive information but negative related with indecisiveness. The individuals with high need for cognition generally elaborate task's more complex conceptual representation and spend more time in order to strive to successfully handle the task that results into their better performance as well (Leone and Dalton, 1988; Baugh and Mason, 1986). Bailey (1997) showed in the findings of study that managers with high need for cognition are more active in searching information more seek and evaluate the alternatives for making a choice among the best decision.

However, it can be also observed that need of cognition has not been extensively examined in the fields of entrepreneurship and strategic management (Zhang and Bruning, 2011). The evidence reveals that entrepreneurs and managers with high level of need of cognition more successfully make adaptive decisions (Levin *et al.*, 2000). Therefore, Zhang and Bruning (2011) assumed that if people with high levels of need of cognition behave in particular patterns then it would be expected from the entrepreneurs to behave similarly with high levels of need for cognition. Means that entrepreneurs with high levels of need for cognition will emphasize more on the logical arguments and will likely to make their strategic decisions on the basis of extensive researches on market rather than by using their intuition. The strategic orientations such as encourage entrepreneurs more to create and utilize extensive market intelligence. There is required of a high level

of cognitive capacity to analyze and respond while utilizing the market intelligence in many situations.

Need for achievement: Historically this construct has been used in the literature of psychology. This construct has been originated in the research of McClelland (1961) and is linked with the behaviors of the entrepreneurs. Individuals with need of achievement refer to all those who want to be high achievers and therefore have strong desire to get success, set challenging standards and goal for themselves. Such people never get satisfaction from their current achievements and always strive to improve their performance. This construct is used to distinguish the entrepreneurs from the non-entrepreneurs. For example, Most of studies have revealed that the entrepreneurs have a high need to achieve than non-entrepreneurs (Begley and Boyd, 1987; Decarlo and Lyons, 1979; Hornaday and Aboud, 1971). It refers to a learned but stable personal characteristic of an individual to gain the satisfaction via striving to gain higher level of excellence (Feldman, 1999).

According to Zhang and Bruning (2011), the previous studies had consensus regarding the positive relationship between manager's need for achievement and firm's performance. Many other studies have also examined the impact of this construct on the strategies of firms. For instance, Miller *et al.* (1988) found that achievement motivation of CEO's impact the process of strategic decision making by increasing integration and formalization within the organization. Also high level of need of achievement enable the CEO's to be proactive and adopt broader focused strategies (Miller and Toulouse, 1986). Another study by Miller and Toulouse (1986) also examined the impact of need for achievement on entrepreneurial orientation and found a positive relationship between these 2 variables. This indicated that people with higher need for achievement adopt broad approaches, favour more market oriented strategies, favour more formal structures and proactive decision making process.

Firm performance: The previous researchers have indicated the strategic orientations such as entrepreneurial orientation react as firm's resources that improve the SMEs success (Hoq and Chauhan, 2011; Barney, 1991). On the other hand, some other researchers have described the strategic orientations as dynamic capability of the firm that indicates the firm's ability to integrate and develop both external as well as internal competencies (Zhou *et al.*, 2005; Teece *et al.*, 1997). While

other researchers have considered it as an element of a firm's culture (Noble *et al.*, 2002). They viewed the concept of orientations as a set of values, attitudes and behaviours of the firm. Thus the concept of strategic orientations has been viewed in many different ways but it is very crucial for SMEs success in every way (Herath and Mahmood, 2013).

The moderating effect of Government Support Program (GSP):

Although, Malaysian government has provided a huge financial assistance to develop SMEs in the country but its effort is becoming useless because of insignificant impact of SME's business activities (Hung *et al.*, 2010). This happens when such assistance programs are provided by the government or private agencies without proper observation. Abdullah have stated that the government support programs are ineffective because only limited number of SMEs get full assistance, resources are allocated with inefficiency and the programs focus more only on the new businesses.

Beside, this all many SMEs do not know how to apply for government assistance, just having confidence on their proposal and seek someone else to help them in getting government assistance. Furthermore, many previous studies have pointed out that SMEs are still unaware regarding the available training programs by government for their management training (Hashim *et al.*, 2007a) and also have lack of knowledge regarding the financial assistance programs offered by the government to promote and help SMEs in Malaysia (Hashim *et al.*, 2007b). Hung *et al.* (2011), the government supporting programs in Malaysia can improve the SMEs performance and can be most effective factors for their success.

As there is inconsistency in the prior literature regarding the positive relationship of entrepreneur's personal characteristics and firm performance and many scholars have argued to have indirect impact of personal characteristics of entrepreneurs on firm's performance, therefore this study also considers a mediator between the independent variable and dependent variable. And argues that in the context of Malaysia the strategic orientations may mediate the influence of entrepreneur personal characteristics and firm's performance because of uncertainty of its external environment. Thus, entrepreneurial orientations may act as a mechanism through which the entrepreneur's personal characteristics impact the firm performance. According to Hung *et al.* (2011), the government supporting programs in Malaysia can improve the SMEs performance and can be most effective factors for their success. Therefore, this study

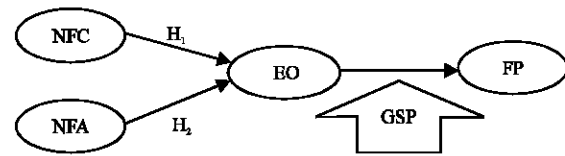


Fig. 1: Research framework and hypotheses NFC = Need for Cognition; NFA = Need For Achievement; EO = Entrepreneurial Orientation; FP = Firm Performance; GSP = Government Support Program

argues that the government supporting programs have major contribution towards the SMEs success in the context of Malaysia and by using government support program as a moderator the relationship between the entrepreneurial characteristics and firm performance may be improved. Thus, it is expected that:

- H₁: the effect of need for cognition, entrepreneurial orientation and firm performance are highly moderated by government support program
- H₂: the effect of need for achievement, entrepreneurial orientation and firm performance are highly moderated by government support program (Fig. 1)

MATERIALS AND METHODS

Sampling the population: The target respondents were top-level management, owner or manager and senior management or middle-level management who have significant amount of experience in running businesses as entrepreneurs (Kumar *et al.*, 1993) who have the greatest insight into these organisation's practices (Lee-Kelley *et al.*, 2003) and who have the most influence on organisational outcomes. The sample frame where the population of SMEs is drawn was obtained from a database held by the Malaysian Statistical Department. These SMEs were operating in the manufacturing industry and they were selected at random. The final pool of SMEs to whom the questionnaires were sent totalled 800. The respondent were contacted through face-to-face interviews with 412 response rate, constituting 64% from the total percentage. After comparing the responses of early and late respondents on a number of characteristics, no significant difference was found, suggesting that the sample is free from response bias.

Statistical analysis: In general, a moderating effects rests on the occurrence of a third variable (Hair *et al.* 2010) and brings along a contingent effect on

the independent-dependent variable relationships (Sekaran and Roger, 2010) that leads to the various impacts according to the level or value of the moderator. Baron and Kenny (1986) emphasised that a moderator variable can be either qualitative (e.g., sex, race and class) or quantitative variables (e.g., level of rewards) that could affect the relationship or strength between predictor and criterion variable. However, in this research, Government Support Program (GSP) in terms of received the assistance in GSP or not received the assistance has been employed to measure the moderating effects between need for cognition and need for achievement support on entrepreneurial orientation as well as firm performance. First, the sample was divided into 2 groups received or not received.

Currently, the new approach utilizes Stat Wiki through integrating two computer programmes, namely AMOS Software and Excel spread sheet in evaluating the presence of moderating effects. The core ideas of this approach follows Sharma and Chrisman (1999), techniques in utilizing z-values to determine the moderator variables. Thus this research followed the steps provided in Stat Wiki website <http://statwiki.kolobcreations.com/wiki/Main-Page> and downloaded the stat tools package in measuring the AMOS output. As mentioned in the procedure, three important outputs from AMOS outputs need to be transferred into Excel spread sheet, namely stat tools package to generate z-values. This technique is much better in terms of time efficiency in reducing the time to calculate the difference of χ^2 for each of the unconstrained path and also reduces mistakes in the calculation process.

Scales measurement: The development of measurement items was carried out by examining the existing valid and reliable scales used by previous researcher and partly identified from literature review. Some of the items have been generated based on variable definitions and modified accordingly to suit with this research context. The origins of the items that measure the personal characteristics constructs in the research framework are threefold and some of these items were adopted from previous studies, namely Das *et al.* (2009), Jaworski and Kohli (1993) and Santos-Vijande *et al.* (2005). Other items were originated from research by Wang and Feng (2012).

It was adapted to make it suitable for Small and Medium Enterprises (SMEs) industry. Zhang and Brunning (2011) posited that similar study using firm's performance as a construct in entrepreneurship had also

been conducted in non-Western countries (Das *et al.*, 2009). Therefore, a group of items was generated for the operational entrepreneur's personal characteristics, namely need for achievement and need for cognition and firm's performance.

RESULTS AND DISCUSSION

Result of hypothesis testing (moderator effect): Table 1 shows data for Z-score between entrepreneur who received government support program (N = 198) and (N = 214) who did not received any government support program from stat tools packages. The analysis indicated a consistent result for all of the prediction and criterions path, except for the relationship NFA and EO and NFA and FP. Results from the analysis draw a conclusion that relationship between NFA and EO and NFA and FP is moderated by GSP because the Z-scores value is significant at 3.788*** and -2.433**. Furthermore, the GOF indicators such as GFI = 0.77, TLI = 0.91, NFI = 0.89, CFI = 0.93 and RMSEA = 0.08 provide an acceptable value for model fit.

The main contribution of this study was validating the effect of personal characteristics by owner or manager of SMEs firms as an entrepreneurial orientation moderate by assistance received from government support program that influences firm performance focusing on Malaysia. The data support the idea that entrepreneurs do not simply react to environmental factors. Instead, their way of seeking and interpreting information and subsequently making strategy choices is subjective and partially influenced by their personal characteristics. By understanding the potential antecedents and consequences of strategic choices of organizational orientations, entrepreneurs are able to strategically seek and acquire certain types of resources and cultivate the most suitable organizational culture.

Interestingly, the data indicate that possessing a higher need for achievement does not preclude an entrepreneur from adopting a market-based strategic orientation. Even though, Lumpkin and Dess (1996) predicted a strong relationship between NFA and EO, our data suggest that highly motivated entrepreneurs utilize multiple means to achieve their goals for success. In other words, high-achieving entrepreneurs fuel their innovation and creativity with market intelligence. Their risk-taking behaviors are calculated because they understand their customer's needs.

Prior studies have revealed that external environmental factors affect entrepreneur's choice of organizational strategic orientations. For example in a munificent environment where growth opportunities are abundant, entrepreneurs are more likely to be creative and

Table 1: Result of hypotheses testing for moderating test

Variables	Yes		No		Z-score
	Estimate	p-values	Estimate	p-values	
Entrepreneurial orientation<--need for cognition	-0.013	0.347	0.008	0.775	0.668
Entrepreneurial orientation<--need for achievement	0.498	0.000	0.882	0.000	3.788***
Firm performance<--need for cognition	-0.039	0.376	0.029	0.541	1.050
Firm performance<--need for achievement	0.526	0.018	-0.142	0.377	-2.433**
Firm performance<--entrepreneurial orientation	-0.276	0.317	-0.034	0.802	0.788

***, **, * < 0.01; 0.05; 0.10

innovative. In contrast, entrepreneurs in a more competitive environment tend to be more cautious and are more likely to follow market signals carefully (Tang *et al.*, 2007). This research was demonstrate that entrepreneur's internal personality factors also play a role.

The results also reveal the government support program effect the relationship between entrepreneurial orientation and firm performance. The findings suggest that the assistance received from government support program has a greater impact on firm's financial performance.

CONCLUSION

Overall, the results show that entrepreneurial orientation in Malaysian SME firms continues to remain a significant and major contributor to the firm's financial performance during both received and not received the assistance from government support program. According to Hung *et al.* (2011), the government supporting programs in Malaysia can improve the SMEs performance and can be most effective factors for their success.

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