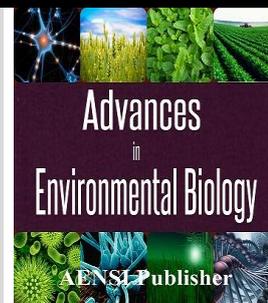




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### The Impact of Entrepreneurial Orientation on Manufacturing SME Performance with the Contingent Effect of E-Commerce in Malaysia

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#### ABSTRACT

Small and medium enterprises (SMEs) play an important role in any economy around the globe where they reduce unemployment and increase the growth [1]. Despite the fact that Malaysia has a boosting economy in the region [2], manufacturing SMEs are not able to stay in business-world. This paper pursues to examine the impact of entrepreneurial orientation (EO) on SMEs in manufacturing sector and the role of e-commerce on this relationship. The purpose of this study is to enrich the literature regarding the impact of entrepreneurial orientation on SME performance within the Malaysian context taking into account the contingent role of e-commerce. Based on resource based view theory, a research model is constructed and required to be evaluated on manufacturing SMEs in one of the fast developing countries, Malaysia.

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#### INTRODUCTION

SMEs play an important role in any economy around the globe where they reduce unemployment and increase the growth [1]. Malaysia is not an exception, SMEs are considered as the main contributor of the country's economic [1]. Despite the fact that Malaysia has a boosting economy in the region [2], past studies showed that 13 per cent of businesses were no longer in operation in 2005 after only five years of their establishment [3]. However, the rate of failure among SMEs in Malaysia is as high as 60% [4]. SME Corp. [5] produced a report stating that 42 per cent of manufacturing SMEs that used to be exist in 2000 were no longer in operation in 2005. This means that many SMEs are not capable of staying in business along with competitive businesses [5]. As a result, this calls for an urgent need to solve these critical issues.

In spite of the fact that there is no agreement among scholars regarding successful factors [6], entrepreneurial orientation has been considered as an essential element for several important reasons. First, many studies have revealed that EO affects business performance positively in favor of avoiding failure and maintaining survival. Entrepreneurial orientation (EO) refers to the methods, practices, and decision-making styles managers use to act entrepreneurially and can be thought of as a type of strategic orientation insofar as it captures how a firm intends to compete. Entrepreneurial orientation consists of the three most salient dimensions: innovativeness, pro-activeness, and risk-taking [7]. Firm performance as a dependent variable has been employed in many studies to explore the EO effect. Past theorizing suggests that ventures assume that employing entrepreneurial orientation through their behaviors will lead to firm performance improvement [8]. However, there are inconsistent where studies have shown EO has positive, negative, or no impact on business performance [9, 10]. Therefore, Baron and Kenny [11] have demonstrated that when the inconsistency is the attribute of such a relationship between the independent variable and the dependent variable, there is an essential need to explore a moderation role that could strengthen or weaken the relationship between them.

Recently, National SME Development Council in Malaysia has produced a report titled "Summary SME Masterplan 2012-2020." This report has included several factors that could boost Malaysian SMEs' performance. Technology adoption was one of the main determinants [12]. Unfortunately, e-commerce as an example of technology adoption has not utilized among many SMEs in Malaysia [e.g., 13]. In addition, most of the previous studies concerning about technology adoption have been conducted in advanced countries rather than less-developed countries such as Malaysia [14]. Besides, e-commerce literature has shortage number of

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studies that have been carried out on SMEs [15]. Even though SMEs have lack of employed resources, they cannot ignore technology utilization in their business operations [16]. As a consequence, this paper intends to conceptualize the contingency effect on EO-performance relationship.

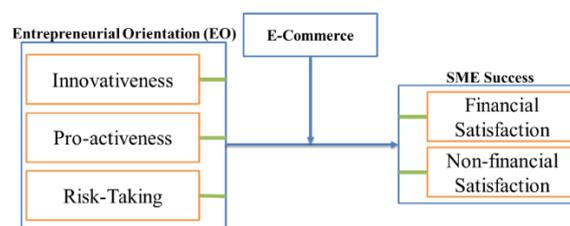
#### Theoretical Framework:

Examining the impact of e-commerce adoption in SME performance could help to bridge the gap in literature where most of the studies have explored the impact of e-commerce utilization on large business in developed countries [14]. In other words, there is a shortage of studies that examine the effect of e-commerce in business performance in less-developed countries such as Malaysia and SMEs. This paper applies resource-based view theory to formulate the contingent role of e-commerce as a moderator on the relationship between entrepreneurial orientation and SME performance. Even though there is a spate of studies that investigate the effect of EO on business performance, the empirical results are inconsistent. Therefore, this study proposes that e-commerce as a moderating variable could strengthen the relationship between EO and business performance in Malaysia. Moreover, this is steady with other researches that have test other determinants that affect the relationship between EO and business performance [e.g., 17].

This study follows Miller [18] concept where entrepreneurial venture is defined as “engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch” [18]. Moreover, the term of e-commerce is not limited to only the trading process (financial transactions) over the World Wide Web [19], rather e-commerce involves more broadly: promoting and purchasing goods, sharing information, offering customer services, collaborating with business partners, enhancing productivity within businesses [20]. This research adopts Wu, *et al.* [21]’s conceptualization. They have defined e-commerce as “the use of Internet technologies that link customers, suppliers, business partners and employees by adopting at least one of the following activities: (i) websites that offer sales transactions; (ii) customer service websites; (iii) intranets; (iv) extranets; and (v) IP electronic data interchange.” SME success consists of financial and non-financial performance [22]. SME success denotes to the level of indication in market share, sales turnover, profitability, return on investment, and sales growth and customer satisfaction, owner's self-satisfaction, customer retention, firm's image and reputation, good workplace relations and employees' satisfaction as measurements of financial and non-financial performance [23].

#### Moderating Effect of E-Commerce:

A contingent variable is a variable which its value causes an effect on the relationship between other two factors. Exploring moderating variables is an indicator of how well the field is being investigated by researchers. Hafeez, *et al.* [24] have suggested studying the effect of EO on business performance with a contingent factor. The role of IT impact on business performance is considered as an essential matter of several scholars and researchers. To maintain success, technologies cannot be ignored by organization. The current study is theorizing that the more e-commerce utilization applied by an organization, the more positive strength the relationship between entrepreneurial orientation and business performance will be. In other words, the higher entrepreneurial orientation acquired is likely to result in successful SMEs only in such cases where the organizations take advantage of technology (i.e., e-commerce). Technology could be observed through different life perspectives: educational level, organizational level, and personal level. Our daily live and technology utilization can become the rule, no longer the exception. Recently, countless number of users uses the Internet for simple product search, products comparison, conduct transactions, and other activities. Figure 1 shows the proposed conceptual model of this study.



**Fig. 1:** Proposed Research Model.

#### Hypotheses:

The findings of Baker and Sinkula [25] have unveiled that EO has a positive impact on firm performance ( $\beta = .61, p < .001$ ). In the similar context, Hakala and Kohtamäki [26] have conducted a study on software industry, and they have found that there is a positive impact of EO on company performance ( $\beta = .24, p < .05$ ).

Besides, Hafeez, *et al.* [24] have found that EO has shown a positive impact on firm performance ( $\beta = .242$ , Sig = .004); the data collected from different universities (100 students).

**H1.** The greater the entrepreneurial orientation, the greater the business performance is.

*Moderator effect:*

There are studies that have shown that there is no effect or negative impact of EO on business performance. Matsuno, *et al.* [9] have found that EO has shown direct negative effect on return on investment (ROI) where ( $\beta = -.277$ ,  $p < .05$ ), and no significant effect on market share and percentage of new product sales to total sales. In addition, no relationship was found between entrepreneurial orientation and business performance [10]

**H2.** E-commerce strengthens the effect of entrepreneurial orientation on business performance.

*Conclusion:*

This study proposes that e-commerce has a moderating impact on the relationship between EO and business performance. Most of the previous studies examined the role of e-commerce in developed countries as well as large enterprises. This paper could fill the gap by studying e-commerce utilization in SMEs in less-developed countries. However, it tries to examine the role of e-commerce in moderating the relationship between EO and business performance in Malaysia.

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