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The Effects of Entrepreneurship Orientation, Government Support and Internationalization on Malaysian SMEs Performance

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Abstract: Prior studies on small and medium sized enterprises (SMEs) in Malaysia have focused on performance with inconclusive results. This paper contributes to the literature by examining variation in performance resulting from the synergistic role of entrepreneurial orientation, government support and internalization. It primarily explores three main industries: manufacturing, service and agriculture, generating data from 218 self-administered questionnaires. Using the Partial Least Squares (PLS) regression in testing the proposed hypothesis, it was uncovered that the mediating effect of internationalization between entrepreneurship orientation and firm performance was insignificant. In contrast, Government support was seen as a stronger predictor of firm performance. Furthermore, internationalization was shown to only partially mediate government support and firm performance. This study emphasizes the importance of Government support and will aid stakeholders in developing a robust understanding of the role of key factors in shaping SME performance in the global market.

Keywords: *Entrepreneurship Orientation, Government Support, Internationalization, SMEs Performance*

Introduction

The role of small and medium sized enterprises (SMEs) is more important in developing countries than developed countries, as SMEs are an important vehicle for economic development. Despite this, SME failures and collapses still take place and problems prevail. For example, Malaysian SME failure rates which are recorded at 60 percent, is considered to be disturbingly high N. H. Ahmad and Seet (2009) when compared to Australia, for example, where failure is measured at 23%. Jamak, Salleh, Sivapalan, and Abdullah (2012) indicated that only 10 percent of SMEs were still operating after 10 years, with many failing within the first five years of operation (Jaafar, A.R Abdul-Aziz, Maideen, & Mohd, 2011). Consequently, only a handful of the large number of start-up businesses survive and grow into successful firms (Cassar, 2006).

SMECorp (2012) conducted a survey of Malaysian SMEs and reported that they are less likely to grow beyond the current size. The finding showed about 14 percent of the SMEs did expand during the survey period, while 16 percent closed down and another 14 percent experienced reductions in

size. Consistent with the SMECorp (2012), the ASEAN SME policy (2014) stated that a major problem experienced by SMEs stems from their size, with regard to rapid trade liberalization. Consequently, it must be emphasized that to reap the benefits of globalization and regional trading, SMEs need to adapt and make changes to their internal organization. Moreover, in order to be competitive and sustainable, Malaysian SMEs have to strive for the export markets (MATRADE, 2017).

Firms gradually build experience and expand into overseas markets. The choice of whether to expand internationally is a vital decision for SMEs who are essentially limited in funds and are domestically focused (Barringer & Greening, 1998). Abdullah and Zain (2011) observed that internationalization can have lasting impact on Malaysia SMEs such as 1) increasing profit, 2) creating new market opportunities, 3) expanding business and marketing and 4) motivating entrepreneurs.

Yet, Malaysian SMEs involvement in the international is still considered low. This largely stems from the SMEs' limited entrepreneurial direction. Based on SMECorp (2012), Malaysian SMEs' contribution is still underrepresented in terms of export (19%) as compared to developed countries, where export contributions, on average, are 50%. Reports suggest that Malaysian SMEs are reluctant risk-takers, lack innovativeness, and not up to aggressive competition.

There is a marked difference between the strategies adopted by developed and newer economies in their internationalization efforts. American SMES, for example, are more reactive in their approach, focusing on international opportunities and cutting-edge R&D (Karagozoglu & Lindell, 1998). In contrast, newer economies as in Malaysia, rely on proactive approaches. As Che Senik, Mat Isa, Sham, and Ayob (2014) observed, Malaysian SMEs were largely motivated by government intervention with regard governance, international business policies, custom procedures, subsidies and incentives (Mtigwe, 2005; Root, 1994).

The objective of this paper is to build on the literature by evaluating the link between and influence of entrepreneurial orientation, government support, and internationalization on performance amongst SMEs in Malaysia. The results hold implications especially for SME entrepreneurs intending to venture internationally, and for the government in addressing awareness and motivation amongst SMEs so they may fully exploit the international opportunities.

Literature Review

This section discusses the theoretical foundations, and review related empirical studies. Using the literature on entrepreneurial orientation, government support and internalization on the firm performance, a theoretical model of the study will be presented at the end of this section.

The entrepreneurial orientation construct has achieved prominence in internationalization and entrepreneurship literature (Huang, Wang, Tseng, & Wang, 2010; Ibeh & Young, 2001). Originating from the seminal research by Mintzberg (1973), it emphasizes the characteristics of entrepreneurial firms as being more inclined towards risk-taking, besides being more aggressive in seeking new opportunities. Specifically, Miller (1983), described the three characteristics of entrepreneurial orientation that have been identified and used regularly in the literature; innovativeness, proactiveness and risk-taking.

The critical role played by innovativeness in international entrepreneurship research S. Zahra, Hayton, and Salvato (2004) highlights its positive influence on the performance of SMEs that have ventured overseas Knight and Cavusgil (2004). Through innovativeness, newer firms are able to

compete with and survive against larger and more established multinationals (MNEs) (Deshpandé, Grinstein, Kim, & Ofek, 2013).

Proactiveness and reactiveness are distinct, in that proactiveness emphasizes aggressiveness, taking quick action and pursuing them to achieve the stated objectives of the firm, especially in the face of competition. In other words, it requires that entrepreneurs have a vision of future direction, and are able to exploit business opportunities without advanced planning. In Tsang (2002) study, of Chinese family enterprises, he observed that a crucial element of proactive firms is the visionary and practical steps taken by leaders who aggressively seek resources and market opportunities in international markets.

Additionally, how entrepreneurs respond risks is equally important (Busenitz, 1999). The two types of risks mentioned by Casson and Wadeson (2007) are; missing a profitable opportunity (error of omission) and exploiting an unprofitable opportunity (error of commission). If SME owners are adept and able to avoid these risks, they can be successful at exploiting the various opportunities that internalization has to offer (Terjesen & Elam, 2009).

Entrepreneurial orientation is seen as a significant factor influencing growth and profitability (Zainol & Ayadurai, 2011). Thus, in a competitive business setting with shorter product and business life cycles, the importance of such characteristics in generating better performance cannot be underestimated. In sum, entrepreneurial orientation is an influential, critical factor that determines the success of a firm (Hamel, 2000).

The development and diversification of SMEs have been impacted by government promotional programs and the country's economic development (Tambunan, 2008). S. Z. Ahmad (2008), and S. Z. Ahmad and Kitchen (2008) claimed that various factors (e.g., government aid in firm expansion), together with the firm's technological and knowledge capabilities, have harnessed the competitive edge of Malaysian companies. The government's assistant (e.g for example support policies, support programs) (Smallbone & Welter, 2001), monetary assistance and preferential treatment Spencer and Gomez (2004) can assist smaller firms in overcoming various challenges. Government support programs can also play an important role in the SMEs' internationalization process Shamsuddoha, Ali, and Ndubisi (2009), and entrepreneurial success (Spencer & Gomez, 2004).

Hung, Lien, Yang, Wu, and Kuo (2011) stated that government support in Malaysia can improve SME performance. It is also the most effective factor in their success. Yet, as pointed out by Idris (2012), if there is too much government support, entrepreneurs lose their own power to control their direction and their belief in their own abilities, becoming too dependent on government intervention. This leads to entrepreneurial attitudes that are prone to blame other parties for their failure, lack of innovation and productivity.

Internationalization is a key determinant of the growth of firms (Abdullah & Zain, 2011; Peng & Delios, 2006), the solid reasons justifying internationalization being as follows; the self-interest of the organizations themselves, perceptions of being threatened in domestic environments, recognition of foreign business opportunities, and the impact of various external events and forces (Abdullah & Zain, 2011; Scarborough, 2012). As S.A. Zahra, Korri, and Yu (2005) argued, the key reasons for undertaking overseas ventures include market expansion, higher financial gains and learning new ideas.

Calof and Beamish (1995) explained internationalization as "the process of adapting a firm's operation to international environments." Internationalization is an essential aspect of the firm growth to perform beyond their national borders, with sustainability in the global market place. It is also necessary that firms compete with other firms at national, industry and firm level (Chelliah, Sulaiman, & Yusoff, 2010). SME internationalization, for example, developed from the availability of

new markets that opened up through deregulation, and competition for such emerging markets (Matenge, 2011).

Hajela and Akbar (2013) and Contractor, Hsu, and Kundu (2005) uncovered an important link between internationalization and the performance of firms. Conversely, Saixing, Xie, Tam, and Wan (2009) indicated that the international expansion strategy serves as a vital and profitable source of growth although such ventures may also incur huge losses due to fierce global competition.

Internationalization performance has been analyzed from both financial and non-financial aspects. Despite the popularity of financial performance indicators, the link between internationalization and firm performance is still unclear. Consequently, current perspectives in measuring and understanding performance appear to be more focused on non-financial aspects (Stam, 2015).

Growth and profitability are performance elements that can be considered important consequences of firm performance. However, as the financial results of internationalization have proven to be unclear, Shaker A. Zahra and George (2002) argued for the use of both financial and non-financial measures in determining the performance outcomes of internationalization. Therefore, this study utilizes both indicators to measure firm performance. While financial performance is measured by return on equity, return on assets and sales growth, the indicators for non-financial-performance include competitive capability and technological learning.

Despite the importance of internationalization and the extensive scholarship committed to the field, empirical evidence on the direct effects of organizational and environmental characteristics and internationalization on firm performance has provided inconsistent results (Zahra & George, 2002). Several studies support the direct impact effects of entrepreneurial orientation, government support, and internationalization on firm performance (Zainol & Ayadurai, 2011; Kang & Park, 2012). However, there are also studies found no empirical support for the direct impact of organizational characteristics and internationalization on firm performance.

Several studies have used internationalization as a mediator in the relationship between organizational and environmental characteristics and firm performance (Tanvisuth, 2007; Chelliah et al., 2010). This was augmented by Tavisuth's (2007) observation of small and medium enterprises in Thailand that internationalization tended to partially mediate the relationship between organizational characteristics and firm performance. Therefore, this study posits that these two factors are not independent of each other and that the relationship between organizational and environmental characteristics, and firm performance is mediated by internationalization.

Framework below (Figure 2.1) based on work of Antoncic and Hisrich (2001). Thus, the hypotheses of the study are:

H1: Entrepreneurial orientation relates positively to internationalization

H2: Government support relates positively to internationalization

H3: Entrepreneurial orientation relates positively to firm performance.

H4: Government support relates positively to firm performance.

H5: Internationalization relates positively to firm performance.

H6: Internationalization mediates the relationship between entrepreneurial orientation and firm performance.

H7: Internationalization mediates the relationship between government support and firm performance.

Figure 2.1: Theoretical Model
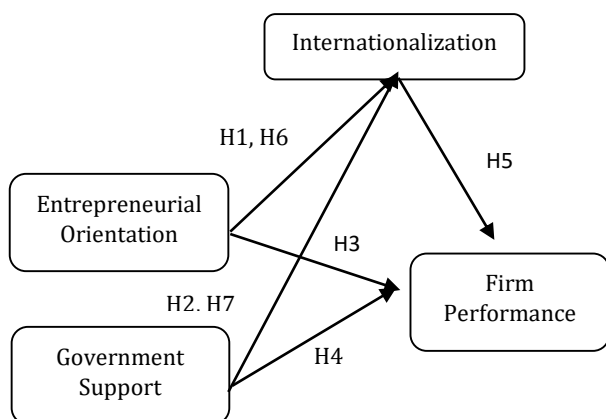
Source: Antoncic and Hisrich (2001)

Research Design

A. Research Scope

The research focused on Malaysian SMEs with international ventures in three main industries; manufacturing, service and agriculture. It involved newer and established firms, traditional, low-technology and high-technology industries in examining if the theories developed based on mature market contexts are also applicable to the emerging economies. The definition of SMEs provided by the National SME Development Council (NSDC, 2013) is used in this study, as follows:

- Manufacturing sector SMEs: Sales turnover not exceeding RM25 million or less than 150 full-time employees;
- Services and other sectors SMEs: Sales turnover not exceeding RM5 million or less than 50 full-time employees.

B. Sampling

There are several methods to determine optimal sample size. Hair, Hult, Ringle, and Sarstedt (2014) stated that the rule of thumb for a minimum sample size should be ten times the maximum number of arrowheads pointing at a latent variable anywhere in the PLS path model as general guidelines. Another method to determine sample size is through statistical power test. High efficiency in parameter estimation and relationship significant can be gained from greater statistical power (Hair, Hult, et al., 2014).

To determine the sample size for this study, power of a test approach was a feasible option. G*Power 3.1.9.2 software was used to determine the sample size: 184 SMEs. Study respondents were SME owners, or the higher management executives of who have first-hand knowledge about their firms' characteristics, management styles, international strategies and performance.

C. Measures

Table 3 shows the sources for the measure of the constructs used in the investigation. The instrument uses a six-point Likert scale to measure each construct and the responses range from 1 (strongly disagree) to 6 (strongly agree). The use of this Likert scale benefits the respondents as it shorter and easier to use in completing the questionnaire. Hair, Sarstedt, Ringle, and Mena. (2012) emphasized that the need for a higher level of precision should be proportionate to the demands placed on respondents.

Table 3: Constructs and Measures

Constructs	Sources
Entrepreneurial Orientation	Dickson and Weaver, 2008; Kreiser et al., 2002; Miller and Friesen, 1983
Government Support	Smallbone and Welter, 2001; Abdullah, 1999; Doutriaux, 1998; Harrison and Mason, 1988
Internationalization	Lehtinen and Penttinen, 1999; Ahokangas, 1998; Johanson and Vahlne, 1990 Chiao, Yang and Yu (2004); Carayannis and Alexander, 2002; Lu and Beamish (2001); Kogut and Zander,1992
Firm Performance	

D. Data analysis

The Statistical Package Social Science for Windows version 21.0 was used for descriptive statistics and the two-step approach as recommended by (Anderson & Gerbing, 1998). The measurement models are assessed for adequate validity and unidimensionality prior to the conduct of structural model effects and interaction modelling for hypotheses testing. Data analysis was performed using Partial Least Squared (PLS), a structural equation modelling technique using a component based approach. PLS affords several advantages; 1) complex structural equation models with a large number of constructs with 50 or more items (Vinzi, Chin, Henseler, & Wang, 2010); 2) suitable for theory development (new variables are added to the theory) rather than theory testing; 3) useful for prediction; and 4) does not need huge sample sizes as other casual modelling techniques (Urbach & Ahlemann, 2010).

Results

A. Descriptive statistics

Table 4.1 summarizes the respondent profile. The majority of the sample were SMEs in the manufacturing sector (41.7%), as compared to the service (35.8%) and agriculture (22.5%) sectors. The majority (58.7%) of the respondents earned between RM10 million and RM25 million; this was followed by RM250 000 to RM9.9 million (28.9%) and RM25 million and above (12.4%). As for full-time staff, the majority of the respondents sampled had 51 to 150 employees (58.3%), as compared to 5 to 50 employees (32.1%) or more than 150 employees (9.6%).

Respondents were also asked to provide details regarding their company's head office location. The data revealed that more than half (59.2%) were located in urban areas, while 33.0% were located in suburban and rural areas (7.8%). The business status statistics showed that more than half of the respondents have Bumiputera status (60.1%). In addition, for the form of ownership status, 77.1% of respondents were from a private limited company, while 11.5% were in a partnership or were a sole-proprietor.

Table 4.1: Profile of Respondents

Demographic	Categories	Total (N=218)	
		No	**%**
Sector	Manufacturing	91	41.7%
	Services	78	35.8%
	Agriculture	49	22.5%
Total Annual Sales	More than RM25million	27	12.4%
	RM10 million - RM25million	128	58.7%
	RM250,000 - RM9.9million	63	28.9%
Number of full-time staff	more than 150 employees	21	9.6%
	51 - 150 employees	127	58.3%
	5 - 50 employees	70	32.1%
Location of your company's head office	urban	129	59.2%
	sub-urban	72	33.0%
	rural	17	7.8%
Duration of your company's international experience	2 - 5	51	23.4%
	6 - 10	59	27.1%
	11 - 15	34	15.6%
	16 - 20	23	10.6%
	21 - 25	51	23.4%
Form of ownership status	sole-proprietor	25	11.5%
	partnership	25	11.5%
	private limited company	168	77.1%
Business status	Bumiputera	131	60.1%
	non-Bumiputera	87	39.9%

B. Partial Least Square Findings

The PLS regression was applied to detect relationships among the constructs. Convergent validity measures the degree to which the items that are indicators of a specific construct converge or share a high proportion of variance in common. The loadings for all items should be beyond the recommended value of 0.50 or higher (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). The composite reliability (CR) of all constructs was above 0.6 (Bagozzi & Yi, 1988), while the average variance extracted (AVE) was above 0.5 (Fornell & Larcker, 1981), thus supporting the stated requirements.

The AVE for this study is in the range of 0.520 and 0.882. The composite reliability, which indicates the degree to which the latent variables can be explained by the observed variables (Ringle, Sarstedt, & Straub, 2012), is in the range of 0.844 and 0.964. This exceeds the cut off value of 0.6 (Bagozzi & Yi, 1988), and hence, the composite reliability measurement is reliable. Thus, this study ensured the existence of convergent validity.

Table 4.2: Result of Measurement Model

Model Construct	Items	Loading	CR	AVE
Innovative	EO2	0.736	0.844	0.520
	EO3	0.760		
	EO5	0.637		
	EO7	0.701		
	EO8	0.764		
Proactive	EO11	0.733	0.907	0.663
	EO12	0.885		
	EO13	0.880		
	EO14	0.853		
	EO16	0.702		
Risk Taking	EO17	0.818	0.846	0.580
	EO18	0.824		
	EO20	0.728		
	EO22	0.665		
Funding	GS1	0.812	0.924	0.753
	GS2	0.874		
	GS3	0.899		
	GS4	0.885		
Policies	GS5	0.881	0.914	0.726
	GS6	0.902		
	GS7	0.820		
	GS8	0.801		
Contract	GS9	0.874	0.930	0.770
	GS10	0.894		
	GS11	0.829		
	GS12	0.912		
Internationalization	INT1	0.918	0.886	0.664
	INT2	0.887		
	INT3	0.710		
	INT4	0.722		
Financial	FP1	0.942	0.957	0.882
	FP2	0.963		
	FP3	0.911		
Non-Financial	NFP1	0.811	0.964	0.710
	NFP2	0.605		
	NFP3	0.835		
	NFP4	0.780		
	NFP5	0.852		
	NFP6	0.886		
	NFP7	0.868		
	NFP8	0.896		
	NFP9	0.906		
	NFP10	0.876		
	NFP11	0.904		

Note: EO1, EO4, EO6, EO9, EO10, EO15, EO19, EO21, EO23, E024, EO25 were deleted due to low loading

Discriminant validity measures the distinctiveness of one construct to another (Hair, Hult, et al., 2014) . It is illustrated via an inevitably low correlation between the measure of interest and other measures that are supposedly not measuring the same variable or concept (Ringle et al., 2012). Table 4.3 (Appendix 1) illustrates that the calculated square root of the AVE exceeds the intercorrelations of the construct with the other constructs in the model, thus indicating adequate discriminant validity. In sum, the measurement model of the study demonstrated adequate convergent and discriminant validity.

Table 4.4 shows the theoretical model path results. The values stated on the path are path coefficients and t-values. About 38.7% of the variance, in extent of firm performance, was explained by the entrepreneurship orientation, government support and internationalization. Out of five direct effect hypotheses, four are significant at the 1%. Surprisingly, there is no significant relationship between the entrepreneurial orientation and internationalization, as shown in Table 4.4 (Appendix 2).

In order to analyze higher order construct, it is important to provide information pertaining to selected modelling approach and reports for constructs properties (Hair, Sarstedt, et al., 2014). Furthermore, they suggest that analysis report for formative model should be included indicator outer weights and multicollinearity of indicators.

This study selects reflective-formative modelling approach that suit with the assessed constructs. At higher order construct level, 3 constructs namely entrepreneurship orientation, government support and firm performance were measured through formative model where 3 variables innovation, proactive and risk taking were conceptualized to form entrepreneurship orientation construct.

Furthermore, 3 variables as contract, funding and policies were conceptualized to form government support and lastly firm performance construct were conceptualized by 2 variables namely financial and non-financial.

Table 4.5: Assessment results of second order construct for formative

FORMATIVE	Variable	Outer Weight	Outer Loading	VIF
Entrepreneurship Orientation	Innovative	0.311	0.838	1.993
	Proactive	0.334	0.842	1.929
	Risk taking	0.490	0.936	2.625
Government Support	Contracts	0.321	0.911	3.222
	Funding	0.341	0.919	3.337
	Policies	0.411	0.960	4.862
Performance	Financial	0.484	0.690	1.081
	Non-Financial	0.753	0.885	1.081

As shown in Table 4.5 (Appendix 3), there were no serious collinearity issues on these variables and all VIF results for all formative variables were within acceptable value. Meanwhile, the findings of mediation effect hypotheses was summarized in Table 4.6.

Hypotheses can be examined to see which are supported by the analysis. Table 4.7 presents the summary of hypotheses testing. The findings showed that 6 out of 7 hypotheses are supported, and only entrepreneurship orientation towards internalization is not significant.

Table 4.7: Summarizes the summary of hypotheses testing

	Hypotheses	Results
H1	Entrepreneurial orientation relates positively with internationalization	Not Supported
H2	Government support relates positively with internationalization	Supported
H3	Entrepreneurial orientation relate positively with firm performance	Supported
H4	Government support relate positively with firm performance	Supported
H5	Internationalization relates positively with firm performance	Supported
H6	Internationalization mediates the relationship between entrepreneurial orientation and firm performance	Not Supported
H7	Internationalization mediates the relationship between government and firm performance	Supported Partial Mediation

Conclusion

This study examined the determinants of internationalization. Specifically, it examined entrepreneurial orientation and government support as constructs and analysed their relationship with the internationalization of Malaysian SMEs. The analysis produced mixed results. Most of the firms involved in this study are relatively young ventures, aged below 10 years, with low involvement and commitment in international operations. Therefore, these SMEs are not highly entrepreneurially orientated and heavily depend on government support for their internationalization.

These observations lead to the conclusion that SMEs in Malaysia need to adopt a highly entrepreneurial approach and this can be developed through extensive entrepreneurial training and practical, real-life mentorships. The results of the study also highlight the advantages of SME internationalization such as their positive financial and non-financial performance development. Thus, these findings make it imperative for SMEs in Malaysia to open up their firms to international markets to increase revenue, besides experiencing growth and development in international markets.

Firms also need to have better understanding of the aspects of internationalization via qualitative and quantitative perspectives. The qualitative research provided a clearer understanding and made it possible to formulate better propositions, allowing firms to effectively carry out the said propositions.

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Appendix 1

Table 4.3: Discriminant Validity of Construct

	CONT	FINA	FUND	INNO	INTN	NONF	POLI	PROA	RISK
CONT	**0.878**								
FINA	0.357	**0.939**							
FUND	0.734	0.303	**0.868**						
INNO	0.155	0.156	0.221	**0.721**					
INTN	0.208	0.324	0.219	-0.021	**0.815**				
NONF	0.309	0.274	0.343	0.401	0.219	**0.842**			
POLI	0.826	0.357	0.833	0.183	0.229	0.332	**0.852**		
PROA	0.207	0.236	0.246	0.552	0.093	0.332	0.270	**0.814**	
RISK	0.199	0.280	0.272	0.699	0.065	0.365	0.239	0.687	**0.762**

Notes: CONT (Contract); FINA (Financial Performance); FUND (Funding); INNO (Innovation); INTN (Internationalization); NONF (Non-Financial Performance); POLI (Policy); PROA (Proactive); RISK (Risk Taking)

Appendix 2

Table 4.4: Path Coefficient (Without Mediating Variable)

	Path	Path Coefficient	Std Error	T-Value	Decision
H1	EO → INT	0.035	0.102	0.324	Not Supported
H2	GS → INT	0.253	0.072	3.524***	Supported
H3	EO → FP	0.214	0.074	2.817***	Supported
H4	GS → FP	0.244	0.068	3.656***	Supported
H5	INT → FP	0.239	0.050	4.894***	Supported

*** p < 0.01, ** p < 0.05, * p < 0.1

Notes: EO (Entrepreneurial Orientation); GS (Government Support); INT (Internationalization); FP (Firm Performance)

Appendix 3

Table 4.6: Hypotheses testing for indirect effect

	BOOTSTRAPPING		S.E	T-Value	VAF	Decision

Mediating Hypotheses		Indirect Effect		Total Effect				
		a*b	c'	(a*b)+c'				
H6	EO→INT→FP	0.008	0.009	0.017	0.025	0.322	-	Not Supported
H7	GS→INT→FP	0.060	0.060	0.120	0.022	2.887***	50%	Supported Partial Mediation

*** p < 0.01, ** p < 0.05, * p < 0.1

Notes: EO (Entrepreneurial Orientation); GS (Government Support); INT (Internationalization); FP (Firm Performance)