



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v9-i9/6270>

DOI: 10.6007/IJARBSS/v9-i9/6270

*Received: 20 June 2019, Revised: 10 July 2019, Accepted: 23 August 2019*

Published Online: 06 September 2019

**In-Text Citation:** (Sidek, Mohamad, & Nasir, 2019)

**To Cite this Article:** Sidek, S., Mohamad, M. R., & Nasir, W. M. N. W. M. (2019). Sustaining Small Business Performance: Role of Entrepreneurial Orientation and Financial Access. *International Journal of Academic Research in Business and Social Sciences*, 9(9), 66–80.

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**Vol. 9, No. 9, 2019, Pg. 66 - 80**

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# Sustaining Small Business Performance: Role of Entrepreneurial Orientation and Financial Access

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**Abstract:** Significance of small business performance to country growth has been acknowledged since many years ago. But peculiarly, high failure rate recorded derived from this sector. This issue sparked a heated debated among scholars lead to the focus on study of determinant factors of business performance including entrepreneurial orientation and financial access. Judging from this fundamental gap, this research aims to examine the relationship between entrepreneurial orientation and financial access on small business performance and mediating effects of financial access in between them. Resulting this, 280 small businesses in East Coast Malaysia were stratified selected to construct a structural model. This study concluded that entrepreneurial orientation was partially significant influence to small business performance, meanwhile; financial access was found partial mediating the relationship between entrepreneurial orientation and small business performance. Instead of consolidating current literatures, this study also provides early caution not only to government and policy makers but also to other authorities such as private bodies, NGOs, including small entrepreneurs on the important of entrepreneurial orientation and financial access towards development of small business.

**Keywords:** Entrepreneurial Orientation, Business Performance, Small Business, Financial Access, Mediating, Structural Model.

## Introduction

Development of Small and Medium Enterprises (SMEs) together with small business in country has been wide-reaching known as contributors to the economic development many years before. This trend can be shown in the recorded statistics where they own higher than 80 per cent of global economic growth. Resulting this, utmost countries are recognized SMEs as the spinal of profitable expansion (SME Corporation Malaysia, 2019). Statistically, in emerging economies they contributed until 60% of total employment with 40% of Gross Domestic Product (GDP) and predicted to cater up 600 million employment opportunities in the forthcoming 15 years (The World Bank, 2019).

Adjudicating to their flourishing contributions, the sustainability of small business performance to ensure stability of economic in facing myriad challenges is becoming a critical

agenda across the countries. Still, a large number of registered businesses depicted failure (Nassif, Ghobril, & Silva, 2010). For instance, The Bureau of Labor Statistics (2018) in the US recorded 20% of registered small business be unsuccessful during their initial start-up and rose to 30% during the second year. This issue is not only arising in high-income countries but also occurring in upper-middle countries such as South Africa recorded 70% of business failed during second years of setup (BusinessTech, 2018) and China with 50% unsuccessful after five years of business operation (Zhang, 2013). No exception, Malaysia also facing this alarming situation whereby recorded business failure rate more than 80% for the last five years (Bernama, 2017).

Based on serious statistical business failure facts, the sustainability of small businesses performance becomes a critical issue need to be address by the present scholars. Nevertheless, this research topic currently still limited in their empirical studies, reliant on normative rules also weak in theory (Blackburn & Jarvis, 2010; Leitch et al., 2010). Among these, Resource-based view (RBV) theory is the most cited theory related with performance (Barney, Wright & Ketchen, 2001; Newbert, 2014). This theory described the organization that deploys strategic resources and capabilities were key factors to promise superior of their performance (e.g. Barney, 2001; Teece, 1982; Wernerfelt, 1984). Subsequently, the focus is needs for more empirically robust studies subject to a series of complex factors that determine sustainability of small business performance (Levie & Lichtenstein, 2010) including entrepreneurial orientation (Awang, Ahmad, Asghar, & Subari, 2010; Bolton & Lane, 2012; Chang, 2015; Fatoki, 2012; Moreno & Casillas, 2008; Preda, 2013) and financial access (Gill & Biger, 2012; Mohammed & Obeleagu-nzelibe, 2014; Xavier, Kelley, Kew, Herrington, & Vorderwülbecke, 2013).

But, some prior researches and empirical studies found that relationship between entrepreneurial orientation and business performance was insignificant (see Khalil, Nejadhussein & Fazel, 2013), openly assumed no direct impact of entrepreneurial orientation on business performance (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). This raises the fundamental gap of this study to include mediating effects in this link. Some prior studies and empirical studies confirmed that entrepreneurial orientation would enhance access to finance (see Covin & Lumpkin, 2011; Pandula, 2011; Ghimire & Abo, 2013). In order to fulfil this research gap, this current study extended prior research works assumed that entrepreneurial orientation in small business may increase their chances for greater financial access and promise better performance. Thus, in attempting this assumption, this research underlined three main objectives of study which is: 1) to examine the relationship between entrepreneurial orientation and small business performance; 2) to determine the relationship between entrepreneurial orientation and financial access; 3) to determine the mediating effects of financial access in the relationship between entrepreneurial orientation and small business performance.

## **Literature Review**

This section review prior studies by linking the relationship between each construct leads to formulation of the research hypotheses.

### **Entrepreneurial Orientation and Business Performance**

Early idea of entrepreneurial orientation was presented by Miller (1983). Morris, Lewis, and Sexton (1994) defined entrepreneurial orientation as an individual or organizational

preparedness to exploit new opportunities and responsible to change. Meanwhile, Walter, Auer, and Ritter (2006) denoted entrepreneurial orientation with readiness, processes and behaviour leads to new markets (or existing) goods or services via the existing (or new) ones. Many studies agreed that the significant of entrepreneurial orientation in business level is interconnected each other. For instance, Rauch and Frese (2009) pondered the variation of entrepreneurial orientation and business performance is 24%. Likewise, the Fuentes-Fuentes, Bojica, and Ruiz-Arroyo (2015) depicted that entrepreneurial orientation is positively connected to financial and operational performance in the women-owned business. Moreover, Avlonitis and Salavou (2007) similar with Moreno and Casillas (2008) found that entrepreneurial organization influenced on profitability, development, innovation and performance in business. Henceforth, refereeing from these literatures, the first hypothesis can be written as:

**H1:** Entrepreneurial orientation is positively and significantly linked to small business performance.

However, since entrepreneurial orientation comes as multidimensional constructs (e.g. Covin & Slevin, 1989; Kreiser, Marino, & Weaver, 2002; Messeghem, 2003; Miller, 1983; Wiklund & Shepherd, 2005), the sub-hypotheses can be written as follow:

**H1a:** Innovativeness is positively and significantly linked to small business performance.

**H1b:** Risk taking is positively and significantly linked to small business performance.

**H1c:** Aggressive competitiveness is positively and significantly linked to small business performance.

### **Entrepreneurial Orientation and Financial Access**

The concept of financial access was continuously associated with Pecking Order Theory; highlighted that high propensities of the organization used internal financial sources instead of external financial sources in order to business financing (Myers & Majluf, 1984). In most countries ranging from high-income to low-income economies, a growing number of small businesses require access to wide choice of financing sources (Hussain, Millman, & Matlay, 2006). Generally, financial access can be deliberated as the capability of the business get advantage from credit or loan offered by financial intermediaries (The World Bank, 2019).

Adequate external financial access need to be combined with the internal elements in the business organization itself. As reminded by Miles, Arnold, and Thompson (2010), entrepreneurial orientation may possibly be a significant element in representing architectural of firm management. Similarly, entrepreneurial orientation can be a accelerate channel for the business to gain financial resources through better chances for them to access to external financing (Covin & Lumpkin, 2011). Likewise, failures of financial access also due to incompetent owner in satisfactory financial suppliers (Smith & Smith, 2007) bring the meaning lack of entrepreneurial orientation in the firm.

Based on these arguments, the current study expected that entrepreneurial orientation in small business may improve the opportunity for better external financial access. Accordingly, second hypothesis and sub-hypotheses can be formulated as:

**H2:** Entrepreneurial orientation is positively and significantly linked to external financial access.

**H2a:** Innovativeness is positively and significantly linked to external financial access.

H2b: Risk taking is positively and significantly linked to external financial access.

H2c: Aggressive competitiveness is positively and significantly linked to external financial access.

### **Entrepreneurial Orientation and Business Performance: Mediating Role of Access to Finance**

This study highlighted that the role of entrepreneurial orientation in open up various chances for business to obtain access to external finances which finally contributed to the business performance. Based on study by Fatoki (2012), the business with entrepreneurial orientation is believed to have better access of debt capital since better off networking with the financial supplier. Accordingly, financial access offered assistance for business development as well as sound growth (Butler & Cornaggia, 2009; Stam & Garnsey, 2008).

Besides that,

Besides that, business that generated an effective strategic orientation such as entrepreneurial orientation could attract numerous external financial supports and promising revenues and profits (Cheng, Ioannou, & Serafeim, 2014). Similarly, sufficient funds able to smooth up firm operations and being one of the crucial factors to the business growth (Isern et al., 2009; Hussain et al., 2006) since many decades ago.

Further, business organization with entrepreneurial talents may bring up more opportunities to external financial resources accessing (Mohammed & Obeleagu-nzelibe, 2014). Whereas, external finance access particularly for small businesses not only can sustain a stable economic environments via encouraging innovation, macroeconomic elasticity and GDP growth in developing countries (Bouri et al., 2011), but also promote a sound of business operations and productions as refer to many earlier works (see Frank, Kessler, & Fink, 2010; Wiklund & Shepherd, 2005; Zampetakis et al., 2011).

Consecutively, this study assumed that an effective entrepreneurial orientation perhaps a good predictor of small business to external financial access, meanwhile, sufficient financial access would improve performance of existing business. Hereafter, the third hypotheses can be derived as:

**H3:** The relationship between entrepreneurial orientation and small business performance is mediated by financial access.

**H3a:** The relationship between innovativeness and small business performance is mediated by financial access.

**H3b:** The relationship between risk taking and small business performance is mediated by financial access.

**H3c:** The relationship between aggressive competitiveness and small business performance is mediated by financial access.

### **Methodology**

This study employed primary data derived from survey of face-to-face and personally administered. This strategy would help the researchers to cater the issues of biasness, accuracy, homogeneous and goodness of the data obtained (Sekaran & Bougie, 2013). In order to start the survey, the study developed a set of questionnaire signified into dual languages: English and Malay comprised of four main parts.

Part A is personal details of the sample comprised of general information of the respondent. Meanwhile, Part B is business performance acts as dependent variable of the study contained several items improved from Ar and Baki (2011), Gathenya et al. (2011) and Wei-Loon (2013). The items are sales (BP1), market share (BP2), customer satisfaction (BP3), product quality (BP4), profitability level (BP5), production level (BP6), number of employees (BP7), number of new customer (BP8) and income level (BP9) measured via five-points of Likert scale. Moreover, Part C is entrepreneurial orientation as independent variable represented into three dimensions namely: innovativeness (INNO), risk taking (RISK) and aggressive competitiveness (AC) adapted from Bolton and Lane (2012), Lan and Wu (2010) and Wiklund and Shepherd (2005). Furthermore, this construct are treated as first order construct and measured by using five-points of Likert scale by which means each dimension represented by five items. Besides that, Part D is financial access plays a role as mediating variable indicated by nine items from several past studies for instance Fatoki (2012), Mason, Floreani, Miani, Beltrame, and Cappelletto (2015) and Zampetakis et al. (2011) used Likert scale measurement symbolized by 1= no access, 2= irregular, 3= medium access, 4= regular access and 5= highly regular access. Additionally, financial access construct was treated as composite scale which means all the items are combined into a single observed construct with the purpose of better the consistency of the measurement and further accurately the anticipated responses (Hair et al., 2014).

Besides that, the sample was proportionate stratified randomly selected into two main strata: state and sector. Initially, the population was divided into strata of Kelantan, Terengganu and Pahang and once again they were divided into strata of sector such as services, manufacturing, construction, agriculture, mining and quarrying. Subsequently, the researchers download the sampling frame from SME Corporation Malaysia. At this time, all the respondents were randomly selected. All the collected questionnaires went through the screening process. Lastly, this study concluded that 280 sample enough to be used for Amos-SEM technique.

### **Procedures for Data Analysis**

#### ***Confirmatory Factor Analysis (CFA)***

This study follow Prajogo (2007) whereby opts to separate the measurement model and the structural model. The CFA process begins via checking the factorial structure of each item (Alegre et al., 2006) in measurement model. The items with lower than 0.60 considered as low loading must be first dropped by the study (Mueller & Hancock, 2010). The similar process need to be done until the study achieved the goodness-of-fit by containing at least one index from each category of absolute fit, incremental fit and parsimonious fit (Hair et al., 2014). Hence, in order to reach the required indices, item BP2, BP4, BP7, INNO1, RISK2, AC3, and AC5 were dropped by the study to achieve measurement model fit. This resulted to:  $X^2=1673.611$ ,  $df=612$ ,  $X^2/df=2.734$ ,  $NFI=0.859$ ,  $TLI=0.909$ ,  $CFI=0.920$  and  $RMSEA=0.068$ .

#### ***Validity, Reliability and Normality Assessment***

This study proceeds to the assessment of validity, reliability and normality after the measurement model fit. Convergent validity assessment is fulfilled if AVE values for constructs more than 0.50 as recommended by Mueller and Hancock (2010). Equally, discriminant validity for constructs is achieved when the square root of AVE depicted higher than the values of correlation between particular construct (Hair et al., 2014; Lu, Lai, & Cheng,

2006). Furthermore, internal reliability is judging based on Cronbach's Alpha value higher than 0.70 (Chang et al., 2007; Hair et al., 2014). Also, construct reliability (CR) for constructs definitely achieved as suggested by the rule of thumb upper than 0.60 (Hair et al., 2014). Last but not least, normality distribution of the data was accepted since the skewness portrayed below than 1.5 and CR is lower than 8.0 (Hair et al., 2014; Zainudin, 2015).

For the mentions assessment, this research has fulfilled the entire test adequate to further analysis. To strengthen, 280 sample of this study also sufficient to satisfy the assumption of using SEM analysis (Hair et al., 2014; Sekaran & Bougie, 2013).

### Structural Model and Hypotheses Testing

The structural model was developed after the measurement model completed goodness-of-fit in CFA procedure and assessment of validity, reliability as well normality was verified. Consequently, the results of testing H1 to H2 were concise as in Table 1.

Table 1: Hypotheses testing

Hypothesis	Structural Path	Standardized Estimate	P-value	Result
H1a	Business Performance <- Innovativeness	0.127	0.041	Significant
H1b	Business Performance <- Risk Taking	0.398	0.001	Significant
H1c	Business Performance <- Aggressive Competitiveness	0.058	0.047	Significant
H2a	Financial Access <- Innovativeness	2.307	0.001	Significant
H2b	Financial Access <- Risk Taking	2.587	0.010	Significant
H2c	Financial Access <- Aggressive Competitiveness	1.091	0.611	Not Significant

Note: 1) Highlighted row means hypothesis is supported by the study.

Source: Based on AMOS output developed for this study.

Overall, H1 is supported by the study since all dimensions of entrepreneurial orientation (innovativeness, risk taking and aggressive competitiveness) had significant relationship with small business performance. In details, H1a is innovativeness ( $r=0.127$ ,  $p<0.05$ ); H1b is risk taking ( $r=0.398$ ,  $p<0.001$ ); and H1c is aggressive competitiveness ( $r=0.058$ ,  $p<0.05$ ) was significantly positive linked to small business performance. Less similarly, this research strongly supported H2 where not all dimensions of entrepreneurial orientation showed significant results. Only innovativeness (H2a) and risk taking (H2b) dimension was significant, while, aggressive competitiveness (H2c) dimension was insignificant. In particular, innovativeness ( $r=2.307$ ,  $p<0.05$ ) and risk taking ( $r=2.587$ ,  $p<0.05$ ) was significantly positive linked to external financial access.

Otherwise, this research follows the guideline suggested by Baron and Kenny (1986) and Hair et al. (2014) to test mediating effect as formulated in H3 via comparing value of

indirect path should be higher than value of direct path in the structural model. The details procedures are depicted in Table 2.

Table 2: Mediation test procedures

Construct	Standardized Estimate	P-Value	Result	Decision
<b>Innovativeness (INNO)</b>				
<i>Direct effect:</i> INNO → BP	0.127	0.041	Significant	<b>Partial Mediation</b>  Indirect effect > direct effect = 0.505 > 0.127
<i>Indirect effect:</i> INNO → FA	2.307	0.001	Significant	
FA → BP	0.219	0.020	Significant	
<i>Total Indirect effect</i> 2.307 x 0.219 = 0.505	0.505			
<b>Risk Taking (RISK)</b>				
<i>Direct effect:</i> RISK → BP	0.398	0.001	Significant	<b>Partial Mediation</b>  Indirect effect > direct effect = 0.567 > 0.398
<i>Indirect effect:</i> RISK → FA	2.587	0.010	Significant	
FA → BP	0.219	0.020	Significant	
<i>Total Indirect effect</i> 2.587 x 0.219 = 0.567	0.567			
<b>Aggressive Competitiveness (AC)</b>				
<i>Direct effect:</i> AC → BP	0.058	0.047	Significant	<b>Not Mediation</b>  Path of AC to FA is not significant
<i>Indirect effect:</i> AC → FA	1.091	0.611	Not Significant	
FA → BP	0.219	0.020	Significant	
<i>Total Indirect effect</i> 1.091 x 0.219 = 0.239	0.239			

Note: BP= Small Business Performance; FA= Financial Access.

Source: Based on AMOS output developed for this study.

According to Table 2, this study found that the relationship between entrepreneurial orientation and small business performance is partially mediated by financial access. In particulars, only two out of three sub-hypotheses (H3a and H3b) were supported by the study, meanwhile, H3c is not supported since none mediating effects among path of aggressive competitiveness, financial access and small business performance. Specifically, in testing H3a, the value of indirect effect is higher than value of direct effect (0.505 > 0.127) concluded to partial mediation since the direct effect is still significant. Similarly, in testing H3b, the value of indirect effect is more than value of direct effect (0.567 > 0.398) leads to decision of partial



mediation due to the direct effect is still significant. However, contradict in testing H3c; path of aggressive competitiveness and financial access is not significant which unsatisfactory requirement of the procedures in determine the mediating effect.

### **Key Findings and Discussions**

The summary of 280 respondents of survey was portrayed as in Table 3. Based on the mentioned table, it could be concluded that majority of the respondents are male entrepreneurs (62.5%), where majority of them were come from middle-age group ranged between 31 and 50 years old. Furthermore, in term of level of education, over half of respondents had completed form 1 to form 5 which is 54.6 percent, where only one per cent revealed that non-schooling, school dropout or owned foreign educational certificated.

As predictable, over 70% of survey sample were operating the services sector (72.5%) by the meaning of offering restaurant, wholesale business, laundry, retail business, storage, accommodation, communication, beauty center, workshop, professional, stitches and transportation. Besides that, referring to active business period, most of the companies were operating between 3 and 10 years. Further, according to Business Life Cycle theory as introduced by Churchill and Lewis (1983), this study concluded that majority of the businesses are in growth stage. Perhaps the main scope of this research is small business; more than 75 percent of them owned Sole proprietorship business (76.1%).

Table 3: Details of sample

Variables		Frequency (n=280)	Percentage (100.0%)
<b>Gender</b>	Male	175	62.5
	Female	105	37.5
<b>Age (years old)</b>	21 – 30	36	12.9
	31- 40	89	31.8
	41-50	95	33.9
	51-60	51	18.2
	> 60	9	3.2
<b>Educational Level</b>	Primary school	1	0.4
	Secondary school	153	54.6
	Pre University	85	30.4
	Tertiary	38	13.6
	*Others	3	1.0
<b>Business Category</b>	Services	203	72.5
	Manufacturing	53	18.9
	Construction	11	3.9
	Agriculture	13	4.6
<b>Business Establishment (years)</b>	3 – 6	89	31.8
	7 – 10	88	31.4
	>10	103	36.8
<b>Business Entity</b>	Sole proprietorship	213	76.1
	Partnership	40	14.3
	Private limited (Sdn. Bhd.)	27	9.6

Note: 1)\*Others mean non-schooling or held foreign educational; 2) Sdn. Bhd. = *Sendirian Berhad*

Source: Based on survey output developed for this study.

The main findings of this study found that entrepreneurial orientation was significantly positive related to small business performance since all dimensions of entrepreneurial orientation were significant in line with many past works (see Awang et al., 2010; Esteve, Peinoda, & Peinado, 2009; Lumpkin & Dess, 1996; Roxas, 2009; Wiklund & Shepherd, 2003) since starting of entrepreneurial orientation concept established by Miller (1983). As forecasted, entrepreneurial orientation as a strategic capability in the small firm was strongly positively and significantly related to external financial access supported by various earlier scholars for instances Covin and Lumpkin (2011), Hussain, Millman, and Matlay (2006), Miles, Arnold, and Thompson (2010) and Smith and Smith (2007).

Besides that, consistent with RBV theory as underpinning theory, this study connected the mediating role of external financial access in the relationship between entrepreneurial orientation and small business performance. But, nevertheless, this current study confirmed that external financial access has given not much impact on the relationship between entrepreneurial orientation and small business performance. Consequently, this research partially aligned with the many past studies such as Fatoki (2012), Ibrahim and Shariff (2015), Ogunsiji and Ladanu (2010), Wiklund and Shepherd (2005) and Zampetakis et al. (2011).

Though that, Wiklund and Shepherd (2005) reminded that dissimilar findings in all probability to the contrast of the result pattern leads to entrepreneurial orientation studies different viewpoints (Frank, Kess, & Fink, 2010). Also, Verwaal, Bruining, Wright, Manigart, and Lockett (2010) had mentioned that small business have less chances to external financial access compared to medium and large firm.

### **Conclusion and Future Research**

The findings highlighted that risk taking was positively significant influence to small business performance, while, remaining two dimensions; innovativeness and aggressive competitiveness insignificantly related. Moreover, this research explained that financial access and small business performance has positive and significant relationship in line with numerous existing scholars. Extendedly, the result displayed that the relationship between entrepreneurial orientation and small business performance was partially mediated by financial access. This research concluded that entrepreneurial orientation in organization would increase the chance of small business to have better external financial access which finally promises to superior performance.

Theoretically, this nature of study contributes to provide understanding of how firms outperform is a fundamental concern of the RBV theory. Consequently, this research contributes to the body of knowledge by testing indirect relationship of entrepreneurial orientation, access to finance and business performance. Furthermore, empirically, this study extends current knowledge on entrepreneurial orientation by determining how access to finance mediates the relationship between entrepreneurial orientation and business performance. This study also contributes to the current literature and empirical findings in respective fields. In addition, practically this study also provides early caution not only to government and policy makers but also to other authorities such as private bodies, NGOs, including small entrepreneurs on the important of entrepreneurial orientation and financial access towards development of small business.

Aside from glowing contribution of the study, future research possibly could improve this research via added other factors since there are many internal or external factors determine performance. Besides that, upcoming researchers could employ the study framework into qualitative approach for the reason that this approach might offer sufficient standpoints advances to this study. Last but not least, this study also may enhance the scope of the study to SMEs since this study only limited to small business sample, where wider scope could increase the results generalization.

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