Impact of Entrepreneurial Orientation on Small Business Performance: Moderating Role of Government Intervention

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ABSTRACT

This study aims to examine and observe the connections between the global entrepreneurial orientation (EO), the influence of Jordanian Government’s EO intervention towards the performance of the local small business industry as well as the impact of the intervention. A survey was conducted using questionnaires. The questionnaires were distributed to 384 entrepreneurs from a Jordanian entrepreneurial body known as ERADA. Questionnaire survey results indicate that Jordanian small business owners are in need to adopt EO to realize better business performance. Questionnaire survey result also suggested a check on the influence of Jordanian Government’s intervention on the relationship between EO and business performance.

Keywords: Entrepreneurial Orientation, Government Intervention, Small Business Performance
JEL Classifications: L25, L26

1. INTRODUCTION

Entrepreneurship is a new term in Jordan. Nonetheless, Jordanian business owners or entrepreneurs are aware of their role as a contributor to Jordan’s economic success. Number of institutions and centers aiming at promoting entrepreneurial spirit, improving activities and practices are increasing. The researcher begins this study by introducing the entrepreneurship concept of small businesses in Jordan and the Government’s intervention to promote entrepreneurship to realize better business performance. Small business industry in Jordan plays a significant role in contributing to Jordanian’s social and economic development. It is a major source of employment and income, whereby about 98% of all businesses in Jordan are categorized as small medium enterprises (SMEs), two-third of which have less than 19 employees (JEDCO, 2010). However, the approximate size of the total funding provided by institutions who invest in projects is nearly half a billion Jordanian dinars - this goes to financing, construction and development of 134,000 projects, which opened up more than 200,000 jobs (Economic and Social Council, 2015). Jordan’s private sector comprises 196,954 employees out of which 43,609 employees are employed by the SMEs. More importantly, 60 percent of the private sector comprises of the SMEs, which employ 37% of the total employment (UND Jordan Human Development Report, 2011).

In relation to this, studies have been conducted to determine the primary hindrances the small industries are facing in Jordan (Alhyari, 2013). Result shows that the small businesses owners in Jordan depends mainly on traditional skills, old school technology in business management and marketing processes to promote their products and services (Maglebheh and Abuyageh, 2012). On top of that, the small business owners are also under pressure to compete with the foreign companies within the country who are running their business using latest technology and method.

The lack of information support and communication networks resulted in poor result findings. It is challenging to put the findings together to provide a clear and complete picture (Al-Mahrouq, 2010) despite the many studies being carried out by different agencies. Magableh and Kharabsheh (2011a) also raised an argument about the lack of specialized studies and data to fill the gap in report writings, the lack of coordination between institutions relating to the facilities and the challenges and primary obstacles.
faced by Jordanian small business owners. Small businesses’ long-term success is crucial to the Jordanian economy but dependable information addressing the justification of the failures is lacking (Mgabeleh and Aboyaghy, 2012). In connection with that, Mohammed Rifai, a member of Board of Directors of Amman Chamber Industry indicated that 1.550 enterprise, comprises of 8.000 workers did not renew its membership in 2015 (Alrai newspaper, 2015). In short, there is no development strategy and industrial policies that has evolved for the small businesses to improve their current status in Jordan even after many rounds of governments’ change.

Public and private agencies in advanced and developing countries adopted EO in order to enhance small business performance. EO emphasizes the importance of being innovative and proactive as well as risk taking (Rauch et al., 2008). Due to the inconsistencies between concept and reality in entrepreneurial-performance relationship, an investigation to reassess the understanding the term EO within the small business industry in Jordan must be conducted. The investigation is conducted due to two reasons.

Firstly, a better understanding on the EO among the business owners is needed. Firms adopting an innovation must know in what way their activities are impacting their relationship with different customers’ needs and requirements. Entrepreneurs who adopt this idea should have a heightened ability and awareness to recognize and confidently develop business opportunities. A robust entrepreneurial direction will ultimately lead to increase entrepreneurship, competitive advantage and global competitiveness (Cachon and Cotton, 2008).

Secondly, based on those conceptual arguments, most studies conducted by quantitative research companies from various industries have confirmed positive results of EO (Wiklund and Shepherd, 2005). Present research also indicates that the strength of the EO-performance relationship depends very much on contextual moderators. Therefore in an effort to clarify the EO-performance relationship, we would like to determine the magnitude of this relationship at the national level. Saeed et al., 2014 emphasized that forward-looking investigation of the potential contributing factor of the EO-performance relationship is necessary. The prior studies’ findings inspired the researcher to carry out the study to examine whether there is satisfaction among small business owners from the entrepreneurial program in Jordan.

2. SMALL BUSINESS PERFORMANCE

Reports on the performance reveal that there is no consensus among the researchers on a suitable method of business performance indicators. As a result, a varied performance measures, such as objective and subjective measures as well as financial and nonfinancial measures were used across studies and resulted in a variety in EO-performance relationship (Murphy et al., 1996; Combs and Crook, 2005). Unbiased data is very difficult to obtain as respondents are reluctant to release sensitive information to the outsiders (Dess and Priem, 1995). On the other hand, owners and managers are generally inclined towards providing a personal evaluation of their firm performance, which lacks reliability (Wiklund, 1999; Wiklund and Shepherd, 2005). Alternatively, performance can be viewed to be multidimensional in nature and therefore it is beneficial to integrate various subjective and objective measures of performance for accurate measurement of performance (Lumpkin and Dess, 1996; Murphy et al., 1996; Wiklund and Shepherd, 2005).

3. ENTREPRENEURIAL ORIENTATION (EO)

Firms adopting EO demonstrate greater performance to those who do not. Thus EO embodies the policies in addition practices that give a premise to entrepreneurial choices and activities (Mason et al., 2015). Entrepreneurial activity is defined by Carree and Thurik, 2005 as a behaviour concentrating on opportunities. According to Covin et al., 2006 EO has turned into an important notion within business enterprises and has become a significant measure of hypothetical and experimental consideration. The dimensions of EO have been distinguished and utilized reliably in literature of previous study. Based on Miller’s and Friesen (1983) conceptualization, three dimensions of EO have been identified and used consistently in the literature namely innovativeness, risk taking and proactiveness. Innovativeness is the predisposition to engage in creativity and experimentation by introducing new products and services as well as technological leadership via R and D in new processes. Risk taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to venture into uncertain environments. Proactiveness is opportunity-seeking, forward-looking perspective characterized by the introduction of new products and services ahead of the competition and acting in anticipation of future demand (Rauch et al., 2008).

Additionally, in their meta-analysis, Rauch et al. (2004) also discovers that the relationship between EO and performance varies substantially according to national culture. Wiklund and Shepherd (2005) describe EO by using three dimensions namely innovativeness, proactiveness and risk-taking. Based on their study, there is a positive relationship between EO and business performance. Meaning, business performance will be better if EO is being completely practiced. However, the other dimensions of EO such as innovativeness, risk-taking and proactiveness are proven to be equally important in explaining business performance according to an earlier empirical research (Rauch et al., 2009, p 778). The EO-firm performance relationship adopted Covin and Slevin’s (1989) scale measure for capturing the extent to which a firm is proactive, innovative and risk-taking. The three dimensions of EO demonstrate independent variance (Lumpkin and Dess, 1996).

The principle of EO depends on how entrepreneurs implement entrepreneurship in the course of realizing their business ambition. Alternatively, entrepreneurship focuses on new entry namely new market, new goods or services. Lumpkin and Dess (1996) considered EO as a process construct, which is related with the methods, practices, and decision-making styles used by the managers.

Despite the arguments around the dimensional of the EO concept (Lumpkin and Dess, 1996), EO unidimensional concept has been
conceptualized by a majority of EO field studies (Covin et al., 2006; Rauch et al., 2009). However, there are various outlooks to the matter whether different dimensions of EO are independent of each other or not. Covin and Slevin (1989) argued that EO is greatest seen as a unidimensional concept. On the other hand, Lumpkin and Dess (1996) asserted that various dimensions of EO possibly will occur in different integration and therefore it will appear as a multidimensional construct. The fundamental reason of these arguments is due to the fact that there is a distinct relationship between each of these sub-dimensions of EO with entrepreneurial outcomes. Risk-taking for an instance has revealed a curved relationship with performance, while a positive and direct relationship occurred between innovation and proactiveness with performance (Kreiser and Davis, 2010).

4. EO AND PERFORMANCE

The relationship between entrepreneurship and firm performance has received considerable attention in the organizational and entrepreneurial literature over the last two decades. However, the magnitude of this relationship seems to vary across studies. Some studies reveal that businesses adopting EO perform better than those who do not adopt EO (Wales et al., 2011; Wiklund and Shepherd, 2003). Most studies find a positive performance relationship; the strength of this relationship varies significantly across various studies and contexts (Wales et al., 2011).

On the contrary, there are also studies reporting lower correlations between EO and performance (Dimitratos et al., 2004; William and Sinkula, 2009). Some studies failed to find a significant relationship between EO and performance (George et al., 2001; Tang and Koveos, 2004). There are also studies indicating the relationship between EO and performance which is not that straightforward and shaped like an inverted U (Tang et al., 2008). Inverted U denotes that a high degree of EO is not always looked-for in certain market and structural conditions (Bhuiyan et al., 2005). Thus there is a considerable variation in the reported relationships between EO and business performance. The reasons for variation in results can be attributed to factors like difference in the scales of EO being used, difference in methodology being adopted, opinion regarding moderating variables and different indicator components of performance being measured. Therefore, we postulated the following hypotheses for the three entrepreneurial dimensions:

\[ H_5: \] Innovativeness positively affects small business performance.

\[ H_6: \] Risk taking positively affects small business performance.

\[ H_7: \] Proactiveness positively affects small business performance.

Literature suggests that the relationship between EO and performance is not that straightforward, rather it is influenced by the interference of various elements of organizational and industrial environment. Venkatraman (1989b) suggested the moderating effects, mediating effects, independent effects and interaction effects models to be used to investigate the impact of third variables as a means of exploring contingency relationships.

5. GOVERNMENT INTERVENTION

Although small businesses have shown significant growth since 1970’s, the entrepreneurial activity rate in the context of Jordan remained moderate in comparison to other countries. This is the reason behind the Jordanian government’s adoption of steps to address entrepreneurship barriers in the economic, political, legal and cultural aspects. The small business performance in the Jordanian context lies the question “What is the government intervention mechanism?” In other words, the study aims to determine whether entrepreneurs’ backgrounds and infrastructure have an impact to entrepreneurial processes and activities in creating successful performance, which will eventually lead to national economic improvement.

Government plays a critical role in shaping the success of local entrepreneurs. Studies conducted on EO have demonstrated that government’s intervention particularly in legislation and regulations is essential to promote entrepreneurship (Vossenberg, 2013). Studies on how regional environment has the influence on entrepreneurial actions have revealed some key factors comprising societal rules, culture, economic conditions and government procedure (Shapero and Sokol, 1982). Davis and Paul (2012) stated that government’s administration enactments and legitimizations are part of the foundation to significant inspirations for EO promotion.

In inspecting exterior factors influencing entrepreneurial adoption flow decision among small business in Jordan, Aulbach and Linowes (2013) stated that government interventions in term of regulations are among the reasons that may influence SMEs to adopt the new entrepreneurship concept. Song et al., 2015 findings similarly mentioned that government interventions and support will encourage the local SMEs to superior performance.

Government’s intervention has a big influence on the entrepreneurs’ adoption or course of action. Government interventions such as subsidies and reduction taxes are introduced with an aim to accelerate and help performance of small businesses. Intervention denotes to the influence of governmental institutions (Jones, 2006).

So far, an intervention on entrepreneurship adoption has not been done in Jordanian context. Nonetheless, some studies were carried out around the topic of moderating effects of government interventions (Shariff et al., 2009; Ruslan et al., 2014).

Empirical studies investigating the relationship between institutional contextual factors and entrepreneurial activities are still few and far between. This study responds to this gap in literature by focusing on government interventions in Jordan. Relevant studies who are of the same caliber but different contexts include Shapero and Sokol, (1982) who focused on the regulatory measurement focusing on laws, regulations and policies, and related them to entrepreneurial activities, after which they were publicized by the government within an area.

Interventions from the government affect the outcomes of businesses and the uncertainties over the availability of capital,
government-backed investments and financial guarantee programs influence businesses. Aside from providing direct funds, fiscal measures such as tax reductions or exemptions also play a role. Positive government intervention shows a consensus throughout the region concerning the best practices of entrepreneurial activities implementation – in other words, entrepreneurs who know how to employ strategies that are not as risky are able to cope with competitiveness in the market. As for operational uncertainty, good government intervention indicates that if entrepreneurs within an area views entrepreneurial activities as a positive thing, they will be more inclined towards them and are more likely to receive support.

Moreover, Vij and Bedi (2012) stressed that organizational and environmental factors should be examined for their moderating effects on the relationship between EO and performance. Therefore, in this study, government intervention was selected to be examined for its moderating impact to shed deeper insight into the EO-performance relationship. Building on this argument, two-way interactions of EO and government intervention are examined, and government intervention is hypothesized to moderate the EO-performance relationship. Based on these hypothesized two-way interaction, the following hypotheses are proposed;

H₄: Government’s intervention moderated the relationship between proactiveness and small business performance.
H₅: Government’s intervention moderated the relationship between risk taking and small business performance.
H₆: Government’s intervention moderated the relationship between innovativeness and small business performance.

6. PROPOSED CONCEPTUAL FRAMEWORK

Building on Wiklund and Shepherd, 2005; Ireland et al., 2009, Kreiser and Davis, 2010; Grande et al., 2011 studies. The EO-performance linkage model is adopted in this study. This includes multivariate relationship by seeing government’s intervention as moderating variables associated with external environment and/or organizational environment. The connection between EO and performance variables as well as the interaction outcome with moderating variables will be examined.

Contingency theory holds that the relationship between two variables depends on the level of a third variable. Introducing moderators into bivariate relationships helps reduce the potential for misleading inferences and permits a “more precise and specific understanding” (Rosenberg, 1968. p. 100) of contingency relationships. Because of its concern with performance implications, contingency theory has been fundamental to furthering the development of the management sciences (Venkatraman, 1989b). Therefore, to understand differences in findings across studies, we investigated potential moderators of the relationship between EO and performance (Rauch, 2008).

As discussed in previous section, determinants of EO such as innovativeness, risk taking, and proactiveness show consistent result to influence of performance. However, this paper suggested future research on EO-performance to study the influence of the government’s intervention towards the relationship of the EO dimensions and small business performance. This is for the reason that the aim of the government’s intervention is actually to promote entrepreneurship, not just to influence small business performance. As a result, we proposed conceptual framework as in Figure 1.

7. METHODOLOGY

We are not able to trace a suitable list of small business population for small businesses in Jordan. Alternatively, we use ERADA (enhancement of production center) data. The sampling frame for this study was obtained from ERADA database which manages a portfolio of 4906 entrepreneurial business. ERADA is recognized as one of the leading training consultants and feasibility studies service provider for the small business sector in Jordan.

The sample contains characteristics within the scope of socio-demographic. Population of the study comprised of 2.571 small businesses in Jordan’s central region encompassing three provinces namely Amman, Albalqa’, and Azarqa’. The central/middle region has been chosen because 45% of the small manufacturing business’ population from ERADA database is located there. Only 384 sample data from a total 2.571 is suitable to be used. The data will be analyzed using SPSS.

Self-administrated questionnaire will be used for this study. Respondent will be asked to indicate the extent of their agreement or disagreement to each statement based on a five-point numerical scale ranging from 1 (“strongly disagree”) to 5 (“strongly agree”). The questions in this questionnaire were adapted and adopted from literature.

8. EXPECTED FINDINGS

This study believes that all hypotheses for EO will be acknowledged and recognized by the government. The government’s interventions such as subsidies, taxes and monitoring are in need of promotion, adoption and innovation.

The study is also confident to getting positive acceptance on the moderating effects of government interventions effort.

9. CONCLUSION

This study attempts to suggest a conceptual framework for future study on small business performance. This is important since literature on small business performance in Jordan is still scarce. This framework will help future researcher to understand
EO adoption. This will also assist us to understand the impact of government’s interventions toward small business’ performance as well as EO dimensions.

REFERENCES


