

# Entrepreneurial Orientation and Women-owned SMEs Business Performance in Malaysia: Ethics as Mediator

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## Abstract

*The contribution of women-owned SMEs to the economic growth cannot be denied. This study intends to examine the possibility of ethics as a mediator on the relationships between entrepreneurial orientation's dimensions and women-owned SMEs business performance in Malaysia. Hypotheses were built based on three dimensions of entrepreneurial orientation that had been widely used by the researchers, namely innovativeness, proactiveness and risk taking. This study involved the women-owned SMEs from all over the country and data collection was made through questionnaires where the constructs used were adapted from past studies and already examined for reliability. By using multiple regression analysis, statistical results supported all of the direct hypotheses confirming the significant relationships between innovativeness, proactiveness and risk taking, and women-owned SMEs business performance. Ethics was then found to mediate the relationships between proactiveness, risk taking and women-owned SMEs business performance. Theoretical contributions and practical implications from this study not only important for the women-owned SMEs, but also to the government for the women*

*entrepreneurial development in the country. The future implications and conclusions are also discussed.*

**Keywords:** Entrepreneurial Orientation, Business Performance, Ethics, Women-owned SMEs, Mediating Effect.

## 1.0 Introduction

According to Fairlie (2009) in the Kauffman Index of Entrepreneurial Activity (1996–2009) Report 2010, every month more than 550,000 new businesses were launched by the entrepreneurs in the United States. In 2007 itself, women owned 7.8 million businesses and accounted for 28.7 per cent of all businesses nationwide (U.S. Census Bureau, 2010).

In Malaysia as well, 19.7 per cent of 645,136 active business organizations operating in the country until end of 2010 were owned by women (DOSM, 2011a). Out of the number, majority of them were involved in service sector (91.7 per cent), followed by manufacturing sector with 7 per cent, and less than 1.0 per cent were in the sectors of construction, agriculture, mining and quarrying (DOSM, 2011b).

From the above state, it is clear that year by year, women participations in the businesses around the world were increasing. That is to say, not only they contribute to the country's gross domestic product (GDP), but also enhance another

important role of SMEs to the nation including the poverty reduction among women through job creation (Moghadam, 2005; UNDP, 2010a, 2010b; Al-Sadi, Belwal, & Al-Badi, 2011).

In Malaysia, women-owned SMEs underperformed is most probably due to lack of intangible resources: different behaviour or characteristics of women entrepreneurs compared to their male counterparts (Teoh & Chong, 2007). The authors found that five factors, namely individual characteristics, management practices, goals and motivations, networking and finally entrepreneurial orientation, were found to influence the performance of Malaysian women entrepreneurs (Teoh & Chong, 2007). In other study, Knotts, Jones, and LaPreze (2004) revealed that women business owners were less successful, had lower profits, and engaged in weaker management practices than their male counterparts, which further suggested the unique challenges for women entrepreneur.

The above findings clarified that there were many factors that contributed to the success of the women-owned businesses. Thus, the study attempts to examine the factors that relate to the success of the women entrepreneurs, for instance entrepreneurial orientation (EO) and ethics.

## 2.0 Literature Review and Hypothesis Development

### 2.1 Entrepreneurial Orientation (EO)

In firm level entrepreneurship literature, entrepreneurial orientation (EO) is one of the most common concepts and has been taken as a strategic dimension. In this study, EO was conceptualised as

consisting of the variables; 1) innovativeness - the development of new and unique products, services or processes; 2) risk taking - a will to pursue risky opportunities, taking the chance of failing; and 3) proactiveness - an emphasis in the persistence and creativity to overcome obstacles, until the innovator concept is completely implemented (Miller, 1983), the three dominant dimensions that are being focused by most of the EO relevant studies to explain the variance in the construct, and being considered to give a great impact in firm's growth (Miller, 1987; Lumpkin & Dess, 1996).

In addition, the majority of the EO relevant studies focused only on innovativeness, proactiveness, and risk taking as the dominant dimensions to explain the variance in the construct (Zahra, 1993; Morris & Sexton, 1996; George & Marino, 2011). This is in line with the study by Miller (1983) that entrepreneurship typically would encompass risk taking, innovation, and proactiveness, and that if any of these elements were missing entirely, the process might be considered "less than entrepreneurial."

Again, as the three dimensions have been noted as the essential dimensions of entrepreneurship and being considered to give a great impact in firm's growth (Miller, 1983; Lumpkin & Dess, 1996). Furthermore, innovative and proactive firms that manage risk in rational way will be more successful by capturing opportunities that rise in changing environment and develop new capacity to attain better performance (Ali & Ali, 2013). Therefore, "risk taking", "innovation", and "proactiveness" are the dimensions in EO that will be used in this study as regard to most of the research in this field (Miller, 1983; Covin & Slevin, 1989, 1990, 1991; Dess, Lumpkin, & Covin, 1997; Wiklund, 1999; Wiklund & Shepherd, 2005).

## 2.2 Business Performance

To date, research on small and medium enterprises (SMEs) does not adequately address the success of socially embedded subsistence businesses (Paige & Littrell, 2002; Shivani, Mukherjee, & Sharan, 2006). More importantly, due to the smaller size and slower in growth of the firms owned by women entrepreneurs (Hanson, 2009), people might not view a majority of women-owned businesses as successful since most people commonly consider money and profits as the best way to measure individual and business success (Sabarwal & Terrell, 2008; Alam, Mohd Jani, & Omar, 2011). Therefore, there are essential problems with measuring enterprise performance and success in pure economic outcome terms (Franck, 2012).

Despite various definitions of business performance in the literature, this study will be considering business performance as success from an economic point of view since business performance is usually measured from the economic perspectives of growth in sales or employees; and/or by the increase in profits (Buttner & Moore, 1997). Masuo et al. (2001) then added that business success is commonly defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and non-pecuniary measures, such as customer satisfaction, personal development and personal achievement. Subjective measures of financial data will also be adopted in this study.

## 2.3 Entrepreneurial Orientation (EO) and Women-owned Business Performance Relationship

Entrepreneurial orientation (EO) is defined as strategic posture of a firm which captures specific aspects of the firm's decision-making styles, practices, and methods (Wiklund & Shepherd, 2005), or in short, indicates a firm's overall competitive orientation (Covin & Slevin, 1989, 1990). It has also been proved as one of the determinant factors that contribute to the business success (Lumpkin & Dess, 1996). Dess et al. (1997) then further confirmed that EO is critical for the overall performance as it demonstrates the use of a combination of other new strategies to be able to get the full advantage of the available business opportunities.

Despite being noted as the essential dimensions of entrepreneurship and being considered to give a great impact in firm's growth (Miller, 1987; Lumpkin & Dess, 1996), to date, the examination on the relationship between EO and business performance has also been conducted intensively although the available empirical findings are mixed. Some studies supported the facts that EO impact performance positively (Wiklund & Shepherd, 2005; Walter, Auer, & Ritter, 2006; Wang, 2008; Rauch, Wiklund, Lumpkin, & Frese, 2009; Davis, Bell, Payne, & Kreiser, 2010; Kraus, Rigtering, Hughes, & Hosman, 2011; Al-Swidi & Mahmood, 2012; Anderson & Eshima, 2013), while others confirmed that the two variables were not correlated at all (Andersén, 2010; Messersmith & Wales, 2011). In other cases, some even found that the dimensions of EO supported performance partially (Ambad & Abdul Wahab, 2013; Kreiser, Marino, Kuratko, & Weaver, 2013; Musa, Ghani, & Ahmad, 2014).

Similarly, studies on the relationships between EO and women-owned SMEs performance showed conflicting results as well (Ali & Ali, 2013, 2014; Hanafi & Mahmood, 2013). Also, there is a little

concern on how EO determines the business performance of women-owned SMEs in Malaysia, despite the growing number of women entrepreneurs and the vital effect of EO on their success. Thus, it is postulated that:

*H1: There is a significant relationship between innovativeness and women-owned SMEs business performance.*

*H2: There is a significant relationship between proactiveness and women-owned SMEs business performance.*

*H3: There is a significant relationship between risk taking and women-owned SMEs business performance.*

## **2.4 Mediating Effect of Ethics on the relationship between Entrepreneurial Orientation (EO) and Women-owned Business Performance**

Ethical views of managers have continued to be of interest to business practitioners and researchers (Phatshwane, 2013). However, to date researchers tend to agree that there has been more interest in ethical perceptions and behaviour of large corporations as opposed to smaller businesses (Painter-Morland & Spence, 2009), despite the fact that many SMEs make important ethical contributions, yet not being described and reported in the terms to which we have become accustomed in the field of business ethics and corporate social responsibility (CSR) (Painter-Morland & Spence, 2009). Here, a resulting gap in the literature has been noted.

In the studies of EO, ethics are limited in the academic literatures which require more investigation considering the importance of the ethics among SMEs owner-managers since they are the decision makers (Harrison & Freeman,

1999) that will affect the entrepreneurial behaviours such as EO, thereupon contribute to the firm performance (Christie, Kwon, Stoeberl, & Baumhart, 2003). Therefore, proposing ethics as mediator variable in this study would have significant policy implications on firm performance more particularly among the women-owned SMEs in Malaysia. Thus, this study will employ ethics to mediate the relationship between EO and women-owned SMEs business performance considering the fact that in RBV perspective, EO influence firm performance through the development.

Additionally, even though Saeed, Yousafzai, and Engelen (2014) noted that the topic on EO and firm performance is among the best-researched topics in entrepreneurship research, the relationships between the two variables are rather complex (Rauch et al., 2009) that calls for the mediating role (Qureshi & Kratzer, 2011). Specifically, EO contributes to overall performance of women-owned SMEs (Ali & Ali, 2013; Hanafi & Mahmood, 2013). On the other hand, some argue that only a few dimensions are related to women-owned business performance or that the relationship between EO and firm performance could be negative (Ali & Ali, 2014; Tantasuntisakul, 2015). Consequently, on the basis of the above discussions, the present study hypothesized that:

*H4: Ethics mediates the relationship between innovativeness and women-owned SMEs business performance.*

*H5: Ethics mediates the relationship between proactiveness and women-owned SMEs business performance.*

*H6: Ethics mediates the relationship between risk taking and women-owned SMEs business performance.*



### 3.0 Methods

This research applied quantitative approach through survey instruments design and the population of the research was the women owner-managers of the SMEs in Malaysia. Constructs used were adapted from past studies and already examined for reliability. The instrument of EM was adopted from the scale used by Covin and Slevin (1989) based on items adapted from Khandwalla (1976, 1977) and Danny Miller and Friesen (1982). The instrument to measure business performance was adopted from the work of Gupta and Govindarajan (1984). Finally, the instrument for measuring ethics was adopted from Cullen, Victor, and Bronson (1993), which was the revised version of Victor and Cullen (1987, 1988)'s Ethical Climate Questionnaire. Data compilation was made through questionnaires and the proposed framework was evaluated through multiple regression analysis.

### 4.0 Results

#### 4.1 Descriptive Analysis

Table 1 shows the descriptive statistics of respondent's profile and characteristics, in terms of their age, marital status, educational background, structure of ownership, and industry. From the table, women owner-managers in the age ranging from 36 to 40 years old and above 50 years old have the majority score of 22.2% each. 15.9% are in the range of 41 to 45 years old, followed closely by 15.5% of those in the age ranging between 46-50 years old. 11.6% of respondents are in the age ranging from 31 to 35 years old, 8.2% in the range of 26 to 30 years old, and finally 4.3% are 25 years old and below.

In terms of marital status, majority of the respondents (76.8%) are married, while the

percentage of those who are single or widow stated the same with 11.6% each. In relation to educational background, respondents who obtained their first degree accounted for 34.3% of the total respondents, while those who finished their secondary school accounted for 26.1%. 24.2% holds a diploma, and 5.8% holds a master. The lowest education level is primary school which accounted for 3.9%, while the highest education level obtained by the women owner-managers is PhD which accounted for 1.9% of the total respondents. 3.9% answered "others" which include the Malaysian Skills Certificate obtained from the public and private institutions in Malaysia.

Table 1 also illustrates that almost all of the respondents involve directly with the firm which accounted for 99.5% and only 0.5% does not. Finally, from Table 1, it is proven that more than half of the respondents are involved in service sector which accounted for 65.7%, followed by manufacturing sector with 26.6%, and agricultural 7.7%.

Table 1  
*Demographic Profile of the Respondents*  
(n=207)

| Category               | Frequency | Percentage |
|------------------------|-----------|------------|
| <b>Age:</b>            |           |            |
| Below 25 years         | 9         | 4.3        |
| 26 - 30 years          | 17        | 8.2        |
| 31 - 35 years          | 24        | 11.6       |
| 36 - 40 years          | 46        | 22.2       |
| 41 - 45 years          | 33        | 15.9       |
| 46 - 50 years          | 32        | 15.5       |
| Above 50 years         | 46        | 22.2       |
| <b>Total</b>           | 207       | 100%       |
| <b>Marital Status:</b> |           |            |
| Single                 | 24        | 11.6       |
| Married                | 159       | 76.8       |
| Widow                  | 24        | 11.6       |
| <b>Total</b>           | 207       | 100%       |
| <b>Education:</b>      |           |            |
| Primary                | 8         | 3.9        |
| Secondary              | 54        | 26.1       |

|                          |            |             |
|--------------------------|------------|-------------|
| Diploma                  | 50         | 24.2        |
| First Degree             | 71         | 34.3        |
| Master                   | 12         | 5.8         |
| PhD                      | 4          | 1.9         |
| Others                   | 8          | 3.9         |
| <b>Total</b>             | <b>207</b> | <b>100%</b> |
| <b>Firm Involvement:</b> |            |             |
| Yes                      | 206        | 99.5        |
| No                       | 1          | 0.5         |
| <b>Total</b>             | <b>207</b> | <b>100%</b> |
| <b>Industry:</b>         |            |             |
| Manufacturing            | 55         | 26.6        |
| Service                  | 136        | 65.7        |
| Agricultural             | 16         | 7.7         |
| <b>Total</b>             | <b>207</b> | <b>100%</b> |

## 4.2 Regression Analysis

Regression analysis was used to test the relationship between dimensions of EO and women-owned business performance (H1-H3).

Table 2 shows the result of multiple regressions to examine the effects of EO (innovativeness, proactiveness, and risk taking) on women-owned SMEs business performance. The results indicated that EO (innovativeness, proactiveness, and risk taking) explained only 27.9 per cent of business performance of women-owned SMEs ( $R^2=0.279$ ,  $F=26.130$ ,  $p<0.01$ ), that was lower than entrepreneurial management. All of the dimensions were found to significantly predict the women-owned SMEs business performance as follows: innovativeness ( $\beta=-0.089$ ,  $t=-2.177$ ,  $p<0.05$ ), proactiveness ( $\beta=0.136$ ,  $t=3.561$ ,  $p<0.001$ ) and risk taking ( $\beta=0.238$ ,  $t=5.354$ ,  $p<0.001$ ). Thus, all the hypotheses on the direct relationships were supported.

These findings are consisted and as well supported by the Resource-Based View (RBV) theory under which such relationships were proposed. According to this perspective, for a firm to have superior performance, it must control intangible

valuable, rareness, inimitable, and non-substitutable resources, to be used in implementing strategy that is not simultaneously being implemented by current or potential competitors (Barney, 1991, 1995). In addition, the RBV theoretically foresees intangible resources to consist of knowledge, skills and reputation and entrepreneurial orientation such as proactiveness, innovativeness and risk-seeking ability (Runyan, Huddleston, & Swinney, 2006), and parallel with EM, EO is also being determined as one of the crucial factors for firm success (Barney, 1991; Hall, 1993)

Overall, the significant results of these three dimensions of EO show that this variable is undeniably one of the important predictors to the success of a firm, since it is related to the performance. Furthermore, recent findings from the Malaysian scenario in the context of women-owned SMEs regarding the dimensions of EO namely innovativeness, proactiveness, and risk-taking, and the business performance of women-owned SMEs were also proven by Ali and Ali (2013) that the variables were all significantly related.

Table 2  
*The Regressions of EO Dimensions On Women-owned SMEs Business Performance*

| Dimension      | $\beta$ | t      | Sig.    |
|----------------|---------|--------|---------|
| Innovativeness | -.089   | -2.177 | .031*   |
| Proactiveness  | .136    | 3.561  | .000*** |
| Risk Taking    | .238    | 5.354  | .000*** |
| $R^2$          | 0.279   |        |         |
| F              | 26.130  |        |         |
| Sig.           | 0.000   |        |         |

Note: \*Significance level at 0.05 (2-tailed)

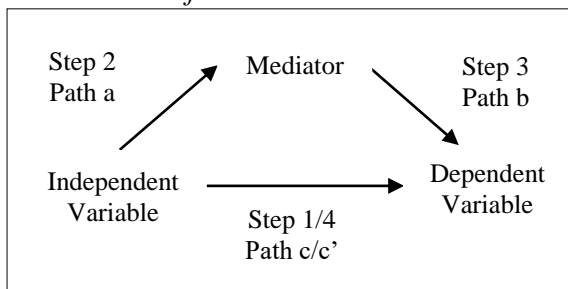
\*\* Significance level at 0.01 (2-tailed)

\*\*\*Significance level at 0.001 (2-tailed)

Dependant Variable: Business Performance

The mediating effect of ethics on the relationship between the dimensions of EM and women-owned business performance was tested based on a regression procedure specified by Baron and Kenny (1986). According to this procedure, it must be demonstrated that the dimensions of EM (predictor variable) is related independently to both ethics (mediator variable) and business performance (outcome variable). Figure 1 indicates the conditions for mediation as suggested by Baron and Kenny (1986).

Figure 1  
*The Process of Mediation*



Source: Baron and Kenny (1986)

Table 3 shows the results for the mediation test. First, in step 1 (path c), all the 3 dimensions of EO, namely innovativeness, proactiveness and risk taking were found to significantly effected women-owned business performance. Thus, further tests for mediation on these dimensions were conducted. In step 2 (path a), only proactiveness and risk taking were found to have significant relationships with ethics. In step 3 (path b), ethics was found significantly effected women-owned SMEs business performance at  $p < 0.001$  ( $\beta = 0.752$ ,  $t = 14.106$ ). Finally, the absolute effects of proactiveness and risk taking on business performance becomes less when ethics as mediator was added in the regression. Thus, partial mediation was registered because the effects of proactiveness and risk taking on

performance were reduced to a significant level. These findings supported H5 and H6, and rejected H4.

Table 3  
*The Effects of Ethics on the Relationships between EO Dimensions and Performance*

|                                                         | $\beta$ | t      | Sig.    |
|---------------------------------------------------------|---------|--------|---------|
| <b>Step 1</b><br><b>(Path c)</b>                        |         |        |         |
| Innovativeness                                          | -.089   | -2.177 | .031*   |
| Proactiveness                                           | .136    | 3.561  | .000*** |
| Risk Taking                                             | .238    | 5.354  | .000*** |
| <hr/> $R^2 = 0.279$ , $F = 26.130$ , $p < 0.001$ <hr/>  |         |        |         |
| <b>Step 2</b><br><b>(Path a)</b>                        |         |        |         |
| Proactiveness                                           | 0.109   | 2.797  | .006**  |
| Risk Taking                                             | 0.116   | 2.571  | .011*   |
| <hr/> $R^2 = 0.139$ , $F = 10.908$ , $p < 0.001$ <hr/>  |         |        |         |
| <b>Step 3</b><br><b>(Path b)</b>                        |         |        |         |
| Ethics                                                  | 0.752   | 14.106 | 0.000   |
| <hr/> $R^2 = 0.493$ , $F = 198.980$ , $p < 0.001$ <hr/> |         |        |         |
| <b>Step 4</b><br><b>(Path c')</b>                       |         |        |         |
| Proactiveness                                           | 0.067   | 2.248  | 0.026*  |
| Risk Taking                                             | 0.164   | 4.753  | 0.000*  |
| Ethics                                                  | 0.635   | 12.075 | 0.000   |
| <hr/> $R^2 = 0.581$ , $F = 70.030$ , $p < 0.001$ <hr/>  |         |        |         |

## 5.0 Discussions

The first objective of this study was to determine the association between EO and women-owned business performance. This objective leads to the testing of the first group research hypotheses (H1-H3) which states that there are significant associations between the dimensions of EO (innovativeness, proactiveness and risk taking) and women-owned business performance. In this study, the result from the model presents that all the dimensions of EO has a significant effect towards women-owned business performance. Therefore, posited that H1, H2 and H3 are supported. That is to say, women owner-

managers who are engaged with innovativeness, proactiveness and managing risk will perform better or succeed in their businesses.

Thus, the findings in this study also support the notions that the dimensions of EO vary independently in their influence on the business performance and that entrepreneurs who are willing to exploit each of these factors have a high possibility of success. Furthermore, SMEs in Malaysia need to be efficient and brave enough to nurture each factor of EO in order to achieve success for their organisations in the environment of globalisation, legislation, reduction of trade barriers and market expansion due to the advances in technology and innovations (Smit & Watkins, 2012). To this end, it is also evidently enough to confirm that it is both theoretically and empirically supported that the dimensions of EO namely innovativeness, proactiveness, as well as risk taking influenced the business performance of Malaysian women-owned SMEs, further add to the body of knowledge in the contexts of the study among women entrepreneurs.

Another objective of this study was to examine the mediating effect of ethics on the relationship between EO and women-owned business performance. This objective leads to the testing of Hypothesis H4, H5 and H6 which states that ethics mediates the associations between the dimensions of EO and women-owned business performance. Results reveal that ethics mediates the relationships between proactiveness and risk taking, and women-owned business performance. This suggests that women owner-managers who practice proactiveness and risk taking indirectly influence their business performance by mean of involving ethics. Thus, it can be said that women owner-managers' ethical values play an important

role through which their proactiveness and risk taking would develop their business performance in the SMEs, thus help to contribute to the country's economic growth.

To date, the literature of management studies that shows the support for the relationships between EO, ethics and business performance are still inadequate despite of EO being one of the well-developed variables that contribute to the business performance. However, as suggested Covin and Slevin (1991), a smooth conversion of EO into superior performance requires input and activities from all functional groups in the organisation. Particularly, leaders with strong ethical values or owner-managers who were found to be more ethical than the other comparison groups or their subordinates (Longenecker et al., 1996; Phatshwane, 2013) could assist in an effective development of ethics in their organisation and hereafter enhanced the intra-organizational relationships. This would definitely influence the employees' attitudes (Elci & Alpkın, 2009) that further contribute to the organizational performance (Khademfar, Idris, Omar, Ismail, & Arabamiry, 2013; Moon & Choi, 2014; Arulrajah, 2015).

## **6.0 Recommendations and Conclusions**

In conclusion, this study examines the factors which are expected to influence the association of business performance among the women-owned SMEs in Malaysia. Based on the research outcomes and discussions, the findings of this study provide several opportunities for future research.

Firstly, future research might consider utilizing a hybrid design on the limitation regarding to the self-report assessment. For



instance, qualitative study conducted with the respondents might provide insights that reveal more of the fact components of the variables and hence, produce a more thorough understanding on the issues. The interview method might also be the alternative approach to mail survey although this approach will incur higher costs to the survey and the questionnaire has to be kept within an appropriate length (Malhotra, 2006; Sekaran & Bougie, 2010).

Next, a female-gendered measuring instrument is suggested to be developed or used for the future research. According to Moore (1990), the nature of the instruments used to collect data on the female entrepreneur deserves more serious consideration as they were based on male businesses and should be analysed whether or not women entrepreneurs have different value sets, needs or problems. Thus, more studies need to be conducted across the globe so as to reaffirm both the direct and indirect effects of this construct on performance in the context of women entrepreneurs.

As a conclusion, this study has provided empirical evidences on the associations between EO and women-owned business performance. In addition, the mediating effect of ethics on the relationship between EO and women-owned business performance has been examined. The findings of this study have ethics to be one of the vital predictors in enhancing the relationships between EO dimensions and business performance particularly among the women-owned SMEs.

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