The Effect of Organizational Culture on the Relationship between Entrepreneurial Competencies and SMEs Business Performance in Malaysia

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Abstract

Generating up to 80 per cent of the economic growth, providing jobs and making up the majority of businesses that operate around the world, the crucial role of SMEs in the global economy is undeniable. This paper tends to investigate the relationships between the dimensions of entrepreneurial competency, organizational culture and SMEs performance particularly in Malaysia that have been proven as lacking in the entrepreneurship study. In addition, this paper also focused primarily on testing the possibility of organizational culture as a moderating variable in the relationship between entrepreneurial competencies and SMEs business performance. By employing a quantitative cross-sectional survey approach, data were collected through mail survey questionnaire distributed to SMEs owner-managers throughout Malaysia. The constructs used were adapted from earlier research and data obtained was analysed using Statistical Package for Social Sciences (SPSS) version 21 for Windows. Statistical results revealed that opportunity competency, organizing competency and strategic competency significantly affected Malaysian SMEs performance. However, organizational culture was found not to moderate the relationships between entrepreneurial competency and Malaysian SMEs performance. Conclusively, implications of the study and some suggestions for forthcoming research are also reviewed.

Keywords: Entrepreneurial Competencies, Business Performance, Organizational Culture, SMEs Owner-Managers, Moderating Effect.

1.0 Introduction

SMEs has been largely ignored for a long time, until the emergence of several reports including Bolton Report (1971) in the UK and the Wiltshire Report (1971) in Australia that focuses on the significant contribution of SMEs in these countries (Qirim, 2004). The role of SMEs not only in maintaining a healthy and dynamic economy in the industrialized countries but also in the introduction of inventions and innovations (Iacovou, Benbasat, & Dexter, 1995).

In Malaysia, the importance of SMEs was given attention in 1971 during implementation of the New Economy Policy (Saad, 2012). Therefore, being one of the key players in Malaysia’s economy development, SMEs are seen as a mechanism to improve income distribution, economic growth and reshape the economic structure that is highly dependent on the activities of big business
Therefore, the survival and growth of SMEs venture in Malaysia is very important (Rose, Kumar, & Yen, 2006). Previous studies revealed that psychology and behavioural skills of entrepreneurs, demographic characteristics, and technical management are seen as the most important factor for the performance and the success or failure of SMEs (Chandler & Hanks, 1994; Man, Lau, & Chan, 2008; Ahmad, Ramayah, Wilson, & Kummerow, 2010). Bird (1995) and Man, Lau, and Chan (2002) explains that the psychological characteristics and behaviour of the owner-manager of the company together with its management skills and specialized areas known as entrepreneurial competencies (EC), which ultimately affects the competitiveness of their companies. Shane (2003) then added that from the point of view of the entrepreneurial process, ECs important, and basis to the existence of the firm.

In other cases, entrepreneurs with EC can scan and discover for business opportunities from different sources, acquire the resources demanded for the realisation of the opportunity, and success fully and increasingly take the risk concerning the future of the company (Gibb, 2005; Man & Lau, 2005). Thus, it is important to study entrepreneurial competencies enabling business continuity from a holistic point of view at the SME level. This is to gain a better understanding of the need for various competencies for business performance, which in turn also generate wealth in communities across SMEs.

### 2.0 Literature Review and Hypothesis Development

#### 2.1 Entrepreneurial Competencies (EC)

The concept of competence was recognized since the 16th century (Mulder, Weigel, & Collins, 2007), and the term “competency” itself was originally used in the field of education to explain the behaviour of trainee teachers before they are widely used in the fields of management (Mitchelmore & Rowley, 2010), initially in the US headed by Boyatzis (1982).

In the literature, terms such as competencies, capabilities, resources, assets, and skills are often used interchangeably (Colombo & Grilli, 2005). Yet, in general, the word competency usually focus on the aspects of human behaviour (Gerli, Gubitta, & Tognazzo, 2011).

According to Man and Lau (2005), entrepreneurial competencies (EC) comprise of components that are more deeply rooted in a person’s background (traits, personality, attitudes, social role and self-image) as well as those that can be obtained at work or through training and education (skills, knowledge and experience). Therefore, they divided the EC’s areas into six dimensions, namely opportunity, relationship, conceptual, organizing, strategic and commitment (Man & Lau, 2000).

Opportunity competencies are related to recognizing market opportunities through different ways (Man & Lau, 2000). This category of competencies comprises of the entrepreneurial activities in spotting opportunities, actively seeking new opportunities, and developing the opportunities (Li, 2009). Meanwhile, relationship competencies are conveyed to person-to-person or individual-to-group-based interactions, e.g., building a context of cooperation and trust, using contacts and connections, persuasive ability,
communication and interpersonal skill (Man et al., 2002). This relationship building activities as entrepreneurial bonding, which includes not only the creation of relationship, but also the restructuring of relationships as the company grows or a partnership is dissolved (Bird, 1995). In other words, the higher the relationship competency of an entrepreneur, the greater the success of their business (Santos, Caetano, & Curral, 2013).

Conceptual competencies then associated with the different conceptual abilities, which are reflected in the behaviours of the entrepreneur, e.g., decision skills, absorbing and understanding complex information, and risk-taking, and innovativeness (Man et al., 2002). This followed by organizing competencies which related to the organization of different internal and external human, physical, financial and technological resources, including team building, leading employees, training, and controlling (Man et al., 2002). Organizing competencies also refer to entrepreneurs' abilities required to take up a variety of tasks and handle different functional areas which demand the ability to plan and organize various resources in the organization (Mamun et al., 2016).

Strategic competencies correlated to setting, evaluating and implementing the strategies of the firm (Man et al., 2002). This category of competencies requires the entrepreneur to have a vision or a big picture in their mind for their business, to have clear goals to achieve, or to formulate and implement strategies to achieve these vision and goals (Li, 2009). Finally, commitment competencies is the competence that led entrepreneurs to move forward with the business (Man et al., 2002). This competencies refers to the basic characteristics of successful entrepreneurs including business, commitment, determination, dedication, initiative and proactive oriented (McClelland, 1987).

2.2 SMEs Business Performance

Business performance is one of the most important constructs in management research (Venkatraman & Ramanujam, 1986; Richard, Devinney, Yip, & Johnson, 2009). According to Carton and Hofer (2010), the performance of SME has been the focus of many prior researchers making it one of the most widely used construct as a dependent variable.

Despite the importance of business performance that illustrates the effectiveness of an organization, in a broader concept, there are two clear indicators of business performance including financial performance (sales growth, profitability, earning per share) and operating performance (market share, new product, product quality, marketing effectiveness and value added) (Venkatraman & Ramanujam, 1986).

SMEs business performance in this study will be looked subjectively in terms of nine factors, namely sales and profitability of cash flow, gross profit margin, net profit from operations, sales growth, return on sales, return on investment, the ratio of profit on sales, return on shareholders' equity and the ability to finance business of profits, prior to the work of Gupta and Govindarajan (1984). This is due to the difficulties in obtaining objective financial data during the assessment of business performance (Zulkifli & Perera, 2011).

2.3 Entrepreneurial Competencies (EC) and
SMEs Business Performance Relationship

Previous empirical studies on EC have been done by numerous researchers and results exposed the important role EC toward the SMEs’ firm performance or success in various contexts and areas (Man et al., 2002; Colombo & Grilli, 2005; Ahmad, 2007; Man, Lau, & Snape, 2008; Mitchelmore & Rowley, 2010; Rasmussen, Mosey, & Wright, 2011; Solesvik, 2012).

In addition, scholars also believe that EC is an important factor that influence the success (S. Shane & Venkataraman, 2000; Ng & Kee, 2013), or business performance (Ahmad, Halim, & Zainal, 2010; Mitchelmore & Rowley, 2010), where lack of this factor actually led to the failure of SMEs businesses (Kiggundu, 2002; Ahmad, 2007; Ahmad, Halim, et al., 2010). This is further supported by Griffin (2012) and Ropega (2011) who confirmed that most business failures are caused by the owner-managers of SMEs who are incompetent, lack experience in managing their business and taking prompt remedial action in a crisis.

Based on the above literatures, empirical studies on EC have been done by many scholars and results revealed the significant relationships between EC and firm performance. Thus, this suggested that EC is one of the vital factors that contribute to the success of the firms, and EC’s dimensions are named as opportunity, relationship, conceptual, organizing, strategic and commitment. Hence, based on the reported research, the following hypothesis is proposed:

$H1$: There is a significant relationship between opportunity competencies and SMEs business performance.

$H2$: There is a significant relationship between relationship competencies and SMEs business performance.

$H3$: There is a significant relationship between conceptual competencies and SMEs business performance.

$H4$: There is a significant relationship between organizing competencies and SMEs business performance.

$H5$: There is a significant relationship between strategic competencies and SMEs business performance.

$H6$: There is a significant relationship between commitment competencies and SMEs business performance.

2.4 Organizational Culture (OC) as Moderator

Culture is a set of values, beliefs, common understanding, thinking and norms for behavior that are shared by all members of a society (Erkutlu, 2011). Although each organization/business cultures differ from each other, the difference is what makes it unique and distinctive organization. In fact, the concept of organizational culture (OC) gained attention in the late 1980s and early 1990s as management scholars have been exploring how and why American companies have failed to compete with their counterparts in Japan (Ojo, 2010).

A study by Sørensen (2002) concluded that a strong culture leads to consistency in performance by increasing employee consensus and willingness to support the organization's goals, reducing uncertainty through goal clarity, and increasing motivation. Ladika (2008) then added that the success of an organization could tie to a strong culture.

This followed by the results of the study by Ojo (2010) which confirmed that OC plays an important role in organizational performance. Moreover, findings by Oparanma (2010) stated that OC have a huge impact related to organizational performance and increased productivity can be achieved if the organization
establish clear objectives for employees/members. The study by Deshpandé and Farley (2004) also confirmed that there is a strong impact of OC on organizational performance and sustainable competitive advantages. In other cases, Ahmad (2007), Ahmad, Wilson, and Kummerow (2011b), and Ng and Kee (2013) suggested that future research concerning the impact of entrepreneurial competencies should pay more attention to some organizational variables such as OC. In addition, the investigation on the effects of cultural orientations on the development of entrepreneurial competencies will also improve understanding that how different cultures of Malays, Indians and Chinese influence on the development of entrepreneurial behaviors and competencies among Malaysian entrepreneurs (Tehseen, Sajilan, Ramayah, & Gadar, 2015).

OC in this study will act as a moderating variable due to the inconsistent results revealed in the previous studies related to the business performance. Moreover, Covin dan Slevin (1991) posited that OC can act as independent variables or moderator of the relationship between entrepreneurial attitude and firm performance. In fact, according to Gela aidan (2012), OC has been used as moderating variable in several studies (Chan, Shaffer, & Snape, 2004; Huey Yiing & Ahmad, 2009). Therefore, in the light of these arguments, the following six hypotheses can be postulated:

\[ H7: \text{Organizational culture moderates the relationship between opportunity competencies and SMEs business performance.} \]

\[ H8: \text{Organizational culture moderates the relationship between relationship competencies and SMEs business performance.} \]

\[ H9: \text{Organizational culture moderates the relationship between conceptual competencies and SMEs business performance.} \]

\[ H10: \text{Organizational culture moderates the relationship between organizing competencies and SMEs business performance.} \]

\[ H11: \text{Organizational culture moderates the relationship between strategic competencies and SMEs business performance.} \]

\[ H12: \text{Organizational culture moderates the relationship between commitment competencies and SMEs business performance.} \]

### 3.0 Methods

The current study also adopted the cross-sectional method to gather data over a single period of time. This study employed the survey method, which makes use of a questionnaire. According to Davis (1996), the most widely used in business-related research is the survey because it is the best method for the study of large populations and at relatively low cost. Owner/managers were targeted in this study because they are making decisions that concern the survival and growth of their businesses.

All constructs included in this study were measured using established measures drawn from previous studies. The instrument was adopted from the study of Man and Lau (2000) (40 items). The same instrument was used in Malaysia (Ahmad, Halim, et al., 2010; Ahmad, Wilson, & Kummerow, 2011a), Netherlands (Lans, Verstegen, & Mulder, 2011), Singapore (Li, 2009), Sri Lanka (Wickramaratne, Kiminami, & Yagi, 2014), India (Krishnan, 2013), Bangladesh (Lopa & Bose, 2015) and Thailand (Nakhata, 2007; Thongpoon, Ahmad, & Yahya, 2012).

The instrument to measure business performance was adopted from the work of Gupta and Govindarajan (1984) (9 items).
based on the subjective measures that are found to be appropriate when studying the small and medium enterprises (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1987). Finally, the instrument for measuring OC was adopted from Wallach (1983) (24 items).

A total of 1,000 questionnaires were mailed to SMEs owner/manager throughout Malaysia, with cover letters and postage-paid return envelopes. The response rate for the survey was 23.4 per cent and considered reasonable. In addition, this rate is based on the previous studies conducted among Malaysian SMEs with the similar method which was found to range between 20 and 22 percent (Bakar & Ahmad, 2010; June & Rosli, 2011). The data were then key into SPSS version 21 and later analysed accordingly.

4.0 Results

4.1 Descriptive Analysis

A total of 231 respondents involved in this study. Table 1 shows the background of respondents and the company. Referring to the table 1, majority of respondents were aged between 36 and 40 years old (23.4%), followed by respondents aged from 26 to 30 years old, 31 to 35 years old and 41 to 45 years olds respectively 15.6% and the remaining respondents aged 46 to 50 years old (11.7%), 25 years old and below (10.4%) and above 50 years old (7.8%). Of the 231 respondents, males accounted for 59.7% (138) of the sample population, while females accounted for 40.3% (93).

Most of the respondents were married (77.9%) while 18.2% of the respondents are single and the remaining widow/widower are representing 3.9%. In relation to the highest education obtained by these owners/managers, majority of them that participated in this study holds a secondary school qualification (31.2%), followed by first degree (26%), diploma (23.4%), Masters’ degree (13%), PhD (3.9%) and primary school (2.6%).

In terms of structure of ownership of the firms, most of them are sole proprietorships (48%), compared to partnership (33.8%) and private limited (18.2%). Finally, from Table 1, the majority of company is micro size (62.3%), followed by small size (32.5%) and the remaining is medium size (5.2%).

Table 1
Demographic Profile of the Respondents
(n=231)

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 25 years</td>
<td>24</td>
<td>10.4</td>
</tr>
<tr>
<td>26 - 30 years</td>
<td>36</td>
<td>15.6</td>
</tr>
<tr>
<td>31 - 35 years</td>
<td>36</td>
<td>15.6</td>
</tr>
<tr>
<td>36 - 40 years</td>
<td>54</td>
<td>23.4</td>
</tr>
<tr>
<td>41 - 45 years</td>
<td>36</td>
<td>15.6</td>
</tr>
<tr>
<td>46 – 50 years</td>
<td>27</td>
<td>11.6</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>18</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>100%</td>
</tr>
<tr>
<td>Sex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>138</td>
<td>59.7</td>
</tr>
<tr>
<td>Female</td>
<td>93</td>
<td>40.3</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>100%</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>42</td>
<td>18.2</td>
</tr>
<tr>
<td>Married</td>
<td>180</td>
<td>77.9</td>
</tr>
<tr>
<td>Widow</td>
<td>9</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>100%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>6</td>
<td>2.6</td>
</tr>
<tr>
<td>Secondary</td>
<td>72</td>
<td>31.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>54</td>
<td>23.4</td>
</tr>
<tr>
<td>First Degree</td>
<td>60</td>
<td>26.0</td>
</tr>
<tr>
<td>Master</td>
<td>30</td>
<td>13.0</td>
</tr>
<tr>
<td>PhD</td>
<td>9</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>100%</td>
</tr>
<tr>
<td>Structure of Ownership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sole Proprietorships</td>
<td>111</td>
<td>48.0</td>
</tr>
<tr>
<td>Partnership</td>
<td>78</td>
<td>33.8</td>
</tr>
<tr>
<td>Private Limited</td>
<td>42</td>
<td>18.2</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>100%</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>144</td>
<td>62.3</td>
</tr>
</tbody>
</table>
4.2 Regression Analysis

The relationships between the dimensions of EC and SMEs performance (H1-H6) were tested by using the multiple regression analysis. The statistical results is illustrated in Table 2 where only three dimensions of EC, namely opportunity competency, organizing competency and strategic competency, is significantly related to SMEs performance. The adjusted R-squared was obtained at 0.146 with a significant level p<0.01. Therefore, this finding supports H1, H4 and H5. Thus, from the result, it is clear that SMEs owner-managers are paying more attention on opportunity competency, organizing competency and strategic competency, yet less concerned about the relationship competency, conceptual competency and commitment competency.

The findings of this study is in line with the previous research (Thongpoon et al., 2012; Lopa & Bose, 2015) which suggests opportunity competencies as one of the factors to increase firm performance. Additionally, the findings are also consistent with previous research on entrepreneurial competencies that has identified a range of organizing competencies associated with the firm’s performance (Solesvik, 2012), such as managerial competence (Chandler & Hanks, 1994), human resource management competence (Brownell, 2006; Redmond & Walker, 2008), and financial management (Brinckmann, Salomo, & Gemuenden, 2011).

Table 2
The Regressions of EC Dimensions on the SMEs Business Performance

<table>
<thead>
<tr>
<th>Dimension</th>
<th>β</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity</td>
<td>.213</td>
<td>1.937</td>
<td>.054*</td>
</tr>
<tr>
<td>Relationship</td>
<td>-.036</td>
<td>-.286</td>
<td>.775</td>
</tr>
<tr>
<td>Conceptual</td>
<td>.132</td>
<td>1.067</td>
<td>.287</td>
</tr>
<tr>
<td>Organizing</td>
<td>-.308</td>
<td>-1.943</td>
<td>.053*</td>
</tr>
<tr>
<td>Strategic</td>
<td>.344</td>
<td>2.457</td>
<td>.015**</td>
</tr>
<tr>
<td>Commitment</td>
<td>-.022</td>
<td>-.184</td>
<td>.854</td>
</tr>
</tbody>
</table>

R = 0.146
F = 6.400
Sig. = 0.000

Note: ***p<0.01; **p<0.05; *p<0.1
Dependant Variable: SMEs Performance

The moderating effects of OC on the relationships between the dimensions of EC and SMEs performance were then tested based on a regression procedure specified by Baron and Kenny(1986). According to this procedure, the following steps were taken in testing for the moderating effect.

Step 1: Independent variable was regressed against the dependent variable.
Step 2: Moderating variable was regressed against the dependent variable as if the moderator is an independent variable.
Step 3: Both the independent and moderating variables were regressed against the dependent variable.

Baron and Kenny(1986) also concluded that a moderating effect occurs if the test in step 3 above is significant. In this study, it is hypothesized that organizational culture (OC) moderates the relationships between the dimensions of independent variables (EC), namely opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency, and commitment competency; and the dependent variable, SMEs business performance. These mean the relationships between opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency, and commitment competency, and business performance changes depending on the value of OC.
In step 1, all the dimensions of EC were regressed against the business performance and results revealed that three dimensions, namely opportunity competency, organizing competency and strategic competency, are significantly related with the dependent variable. Next, in step 2, the existence of OC has increased the influence of EC dimensions against the business performance significantly ($R^2$ Change = 0.0150, $F$ change = 47.369, $p < 0.01$). Finally, in step 3, the interactions between the dimensions of EC and OC have been included. Results of the test showed the presence of the interaction failed to bring significant changes to the model. Therefore, it can be concluded that the culture of the organization failed to act as a moderator variable in the relationships between the dimensions of EC and SMEs business performance.

5.0 Discussions

The first objective of this study was to determine the direct relationships between EC dimensions and Malaysian SMEs business performance. This objective leads to the testing of the significant associations between the dimensions of EC (opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency and commitment competency) and SMEs performance (H1-H6).

The results showed that only three dimensions of EC, namely opportunity, organizing and strategic competency were significantly affected the SMEs business performance. Thus, supported H1, H4 and H5. The results of this study showed that SMEs owner-managers who were engaged with opportunity, organizing and strategic competency would perform better or succeed in their businesses, even though significant relationship were found between all the six dimensions of EC and SMEs performance as studied by Man, Lau dan Chan (2008). In addition, this suggested that some of the EC dimensions used in the overall SMEs studies might not be relevant to the small firms or the SMEs in Malaysia. That is why they are less concerned about the relationship competency, conceptual competency and commitment competency, and in fact they can do better with the other competencies such as opportunity competency, organizing competency and strategic competency.

Another objective of this study was to determine the moderating effect of OC on the relationships between the dimensions of EC and SMEs business performance. This objective leads to the testing of Hypothesis 7 until Hypothesis 12 which claims that OC moderates the relationships between the dimensions of EC and SMEs business performance. Results revealed that OC failed to act as a moderator on the relationships between the dimensions of EC and SMEs business performance.

Thus, it can be said that although OC was found as one of the vital factors that contribute to the success of SMEs, there is possibility that the results of these contradicted finding relate to the settings of the study itself. Most of the previous studies were conducted in Western countries where OC were found as significant moderators in looking at the relationship between various independent variables and performance. This is consistent with findings by Muzychenko (2008) which states that some competencies developed in the home cultural environment may not guarantee effective performance if the entrepreneur is to identify opportunities internationally.

6.0 Recommendations and Conclusions
In conclusion, this study examines the factors which are expected to influence the association of business performance among the SMEs in Malaysia. Based on the findings and discussions, some suggestions can be discussed in order to improve the quality of the future research. Firstly, researchers in the future should pay attention on both socio-cultural background and current business environment as they were the key factors that influence the development of competencies among the entrepreneurs.

Next, future research may want to consider setting up a survey instrument in Chinese, Indian or various languages that could be an advantage especially in a multiracial country like Malaysia. This may attract more participation from the owner-managers of SMEs from other races, further generalizing the distribution.

Finally, more future studies that highlight the importance of EC towards the performance of SMEs, and the role of OCin enhancing the business performance of SMEs, are encouraged to be conducted in order to increase the confidence of the practitioners as well as the firm owner/manager. To conclude, based on the findings of this study, the researcher recommend that the variable of ECshould be given a serious attention since it is proven to be one of the important element that could improve the performance of SMEs.

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