

# A Review of Entrepreneurial Orientation and Organizational Performance of Online Business in Malaysia: The External Environment as a Moderator

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## Abstract

The tremendous technological evolution has brought drastic changes to the current market structure. The Internet has become an important alternative means of distribution for goods and services, specifically. Online business to date seems to have gone through several major transformations mainly due to increasingly stiff competition, changes in consumer behaviour, and technological advancements. The online business sector in Malaysia is essential primarily due to its significant contribution to the economic growth, boosted by the support and various initiatives offered by the government. Hence, this online business segment must be properly managed to ascertain sustenance. Having that said, this study aims to assess the relationship between entrepreneurial orientation (EO) and organizational performance (OP), as well as the moderating effect of external environment (EE) on the studied correlation. Incorporating a moderator factor in this study will enable more precise descriptions on the relationship between the two variables mentioned and the study outcome. Only a handful number of studies have investigated the relationship involving EE and its consequences on OP of online business across developing countries. Hence, this study is keen to do so within the context of Malaysian online business from the lens of the Resource-Based View (RBV) theory. This study will adopt the quantitative approach, whereby 400 questionnaires will be disseminated to the target population. The gathered data will be analysed using Structural Equation Modelling (SEM) via SMART PLS 3.0. The expected study outcomes may serve as a guideline for online business owners or founders to enhance their OP to compete in the cutting-edge digital sphere.

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## 1. Introduction

Entrepreneurial Orientation (EO) is a key concept of entrepreneurship and has been acknowledged by scholars as an organisational-level entrepreneurial activity (Covin & Slevin, 1991; Rauch et al., 2009; Covin & Lumpkin, 2011). The EO refers to the cycle of strategy making that provides the basis for strategic decisions and actions for organizations (Lumpkin & Dess, 1996). The EO is a key component of organizational success (Lumpkin & Dess, 1996), which was found to lead organizations towards higher performance (Zahra & Covin, 1995; Wiklund & Shepherd, 2003). Put simply, businesses are likely to benefit from implementing and embracing EO (Wiklund & Shepherd, 2005), primarily because it has been considered an important tool that helps organizations increase their efficiency (Covin & Lumpkin, 2011). Entrepreneurship studies in the context of EO, nevertheless, have focused more on conglomerates and SMEs than on online businesses (Frishammar & Andersson, 2009). Dess, Lumpkin, and Covin (1997) reported that EO-equipped organizations are more likely to perform better than those without such an emphasis. This highlights the importance of EO in a business, including online business.

The online business segment in Malaysia has been targeted as one of the main contributors for the development of excellent and knowledgeable generations, which need to cope with the present digital transformation. In Malaysia, the online business sector has been experiencing growth, especially with assistance given by the government. For instance, the government has allocated RM 100 million for *eRezeki* and *eUsahawan* programmes to ensure that the well-being of the rakyat (people) is looked after (Bank Negara Malaysia, 2017). These programmes are part of the efforts taken by the government to nurture the growth of the country's Digital Economy. With all these initiatives provided by the government, entrepreneurs may contribute by modifying their working environment and upgrading their businesses. With electronic business (e-business) emerging as a vital digital business platform, Malaysian retailers need to start transforming themselves to become more effective, apart from creating efficient entities to embark on the digital transformation. Online businesses in Malaysia have turned out to be progressively vital, as they offer vast opportunities for generating revenue and creating a bright future. With the support and opportunities at hand, the government believes that its efforts will help to develop and increase the number of online ventures in Malaysia, besides enhancing the performance of businesses in line with the current development.

Both conceptual and empirical evidence indicate that entrepreneurial activities can reinforce and enhance business efficiency, especially online businesses (Meditinos, Chatzoudes & Sarigiannidis, 2014). Nevertheless, due to the highly competitive online

market, an online business is forced to be innovative and flexible in response to the continuously changing and unstable electronic platform. Hence, accurate decision making has become an important factor that dictates the success of an effective online business operation (Onetti et al., 2012; Yeh et al., 2012).

Although several empirical studies have documented positive effects of EO on firm performance (Wiklund & Shepherd, 2003; Li, Huan & Tsai, 2009), some other factors have not disclosed these findings (Lee, Lee & Pennings, 2001; Hughes & Morgan, 2007). Such mixed results indicate that EO may not always yield superior performance (Kusumawardhani, McCarthy & Perera, 2009). Nevertheless, it is still essential to comprehend the implementation of EO and its link with organizational performance (OP) within the context of Malaysian online business.

At present, the competitive business environment appears to influence the resources and internal capabilities (EO) of online businesses towards achieving exceptional business performance. The external environment (EE) has been defined as factors and situations that both dictate and influence firm performance (Mohd, 2005). Thus, EE plays an important role in influencing the relationship between EO and OP. Ahmad, Rani, and Kassim (2010) asserted that the business setting in Malaysia is getting more competitive, as the online business segment poses as a challenge in this new economy driven by digital platform. The EE is believed to weaken the relationship between EO and OP of online business, whereby high EE may adversely affect the EO-OP correlation. On the other hand, low EE would lead to better EO-OP relationship.

### 1.1 Problem Statement

Failed online entrepreneurs have been blamed for not properly developing their decision-making skills (Batiah, 2011). The advent of the 21st century was accompanied by the 'dot-com crash', whereby hundreds of companies worldwide laid off thousands of employees and were filed for bankruptcy (Batiah, 2011). Several parties were blamed for the 'dot-com crash', of which majority were established and run by young entrepreneurs who lacked the 'essential experience in planning, organising, and managing business' (Foster & Lin, 2003). However, little is known on how online business entrepreneurs develop decision-making skills to achieve business success, since most studies focused on the drivers or the consequences of online businesses (Ekemen & Yildirim, 2016; Fleenor, 2015; Omar & Anas, 2014; Chang & Dasgupta, 2015). In order to gain a competitive advantage towards enhancing OP, EO, as depicted by Lomberg et al., (2016), refers to an effective tool that equips organizations the basis for decision making and action. Hence, it is vital to analyse the role of EO in OP of online businesses within the context of Malaysia. Both EO and OP should be given

due attention, so as to assist policy makers in grooming more successful, young, and talented entrepreneurs.

Despite the strong economic growth noted in recent times, EE has remained a key challenge for Malaysia to continue with positive progression. Some authors have ascribed the disappointment of businesses, particularly SMEs, to various factors ranging from training of entrepreneurs to exposure and experience, whereas some analysts opined that business environment may have an adverse impact on SMEs (Obasan, 2014). Understanding the environment within which the business must operate is significant to successfully run a business unit at any place. Hence, comprehending the role of EE in developing EO to achieve excellent business performance is essential as online business decision making among Malaysian entrepreneurs is an issue that warrants attention. Unfortunately, data about the moderating role of EE on Malaysian online business setting is in scarcity. Hence, as this present study predicts that EE modifies the relationship between EO and OP, it is set to examine the moderating effect of EE on the said correlation.

## 2. Literature Review

### Entrepreneurial Orientation

The EO has received extensive theoretical and empirical attention in organizational research domain. It has emerged as one of the most widely accepted firm level constructs in entrepreneurship literature (Gupta & Batra, 2015), and one of the major topics in entrepreneurship studies (Vora, Vora & Polley, 2012). The definition of EO largely refers to the organisational level. The term EO was introduced by Miller (1983), although he did not use the term in his study (Covin & Lumpkin, 2011). Miller (1983) defined EO as ‘an entrepreneurial firm that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch’ (p. 771). Put simply, according to Miller (1983), EO is composed of innovativeness, risk-taking, and proactiveness.

Meanwhile, based on Lumpkin and Dess (1996), EO represents processes, practices, and decision-making activities that lead to new entries. A study by Covin and Lumpkin (2011) referred EO to a ‘strategic posture’ of firms that indicates their entrepreneurial position to sustain firm viability. Nasip et al., (2017) defined EO as a strategy-making process that portrays an organisation’s entrepreneurship. Most studies seem to agree on a single aspect, which is EO should be treated as a firm-level phenomenon (Wach, 2015; Narayanan, 2017). Therefore, EO, in this present study, will be treated as a firm-level phenomenon in light of online business.

### Organizational Performance

Organizational performance (OP) is an important factor that determines why some organisations succeed while

others fail. It is crucial for business owners, managers, and entrepreneurs to determine the performance level of their organisations to take appropriate steps for venturing forward. This is a concern that demands attention due to its impact on organisation competitiveness. However, defining, conceptualising, and measuring performance is not an easy task, as organisational researchers have varied opinions and definitions for performance (Barney, 1991).

A vast range of concepts and definitions explain OP. According to Daft (2000), OP denotes the ability of organisations to achieve their goals using available resources in an efficient and effective manner. Similarly, Tapanya (2004) defined OP as the ability of an organisation to achieve its goals and objectives. Harif, Hoe, and Ahmad (2013) asserted that in order to achieve long term and successful OP, organizations must fulfil the expectations and needs of stakeholders, including their customers, employees, suppliers, local community stakeholders, and shareholders.

### External Environment

The modern-day entrepreneurs are bound to face an unpredictable business setting, wherein globalisation, lack of resources, frequent fluctuations in business cycles, changes in social values, technology, competition, customers, suppliers, and various other forces, affect the overall business performance (Ward & Lewandowska, 2005; Asch & Salaman, 2002). Looking at the competitive business environment in Malaysia, companies are compelled to behave in an entrepreneurial manner to survive the market. As such, EE has been described as factors and situations that both dictate and influence firm performance (Mohd, 2005). Wood et al., (2000) asserted that the EE, in which firms function, is uncertain, complex, and constantly changing. Therefore, upon integrating EE into the e-business context, as well as as prescribed by Mohd (2005), EE in this present study represents ‘the forces outside an organisation that exert uncontrollable influences on business activities and performance’.

Prior studies have mostly concentrated on the direct and moderating effects of EE. Kuratko and Hodgetts (2004) claimed that the moderating effect of EE may either directly or indirectly affect entrepreneurial decisions, thus influencing firm performance. Martins and Rialp (2013) described EE as a key contextual factor for the EO-OP correlation. Organisations that face a high level of EE may have a lower level of EO and OP, and vice versa. This is attributable to the fact that the more pressure an organisation feels in its operating environment, the better it can protect itself and encourage the adoption of best practices (Zailani, Dahlan & Jallaludin, 2009).

The various factors and forces that make up the external determinant could cause problems to organisations and are likely to influence good decision making, which can weaken the relationship of EO-OP.

Mohd (2005) claimed that EE factors dictate the success and failure of firms (Jabeen, Aliyu & Mahmood, 2016). A sound market climate gives a company an edge above and above other organisations, besides helping it gain a competitive advantage. A thorough analysis of the market environment will provide a firm with adequate information about how to manage the issues in the field it operates in (Aliyu & Mahmood, 2015). Hence, this present study will direct its focus on EE as a potential moderator that influences the relationship between EO and OP of online business in Malaysia.

### 3. Conceptual Framework and Hypothesis Development

#### Entrepreneurial Orientation and Organizational Performance

The EO is an important competency in becoming a successful entrepreneur, as well as in managing the performance of the firm. The role of EO is crucial due to its positive impact on business performance (Covin & Slevin, 1989; Lumpkin & Dess, 1996). Firms with high levels of EO tend to constantly scan and monitor the activities of entrepreneurship, in the attempt of identifying fresh opportunities and of strengthening their competitive positions (Covin & Miles, 1999).

A study by Deepababu and Manalel (2016) revealed the importance of EO and its influence on OP in both conceptual and empirical viewpoints (Covin & Slevin, 1991; Lumpkin & Dess, 1996). Similarly, many other empirical studies (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003, 2005) have reported the positive effect of EO on OP (Lumpkin & Dess, 1996; Wiklund, 1999; Lee & Pennings, 2001; Wiklund & Shepherd, 2005; Alegre & Chiva, 2013; Hakala, 2013). Therefore, it may be beneficial to investigate EO, mainly because entrepreneurial strategies have been associated with better firm performance. Besides, the EO-OP relationship has been at the forefront of entrepreneurship literature for many years (Deepababu & Manalel, 2016). Based on the above discussion, the following hypothesis is formulated:

*H<sub>1</sub>. Entrepreneurial orientation (EO) is positively related to organizational performance (OP).*

#### The Role of External Environment in the Entrepreneurial Orientation and Organizational Performance relationship

The relationship between EO and OP has been widely studied by many researchers. However, scholars have reported mixed results for the EO-OP relationship; some positive and some negative. Studies that have highlighted the significantly positive relationship between the two constructs include Wiklund and Shepherd (2003), Fairoz, Hirabuni, and Tanaka (2010), Idar and Mahmood (2011), as well as Al-Swidi and Mahmood (2012). On the other hand, Arbaugh, Cox, and Camp (2009), and Anderson (2010) reported a negative association between EO and

OP; whereas Runyan, Droge, and Swinney (2008) and Ambad and Abdul Wahab (2013) found mixed outcomes for the EO-OP relationship. Hence, EO's position in performance relationship studies seems inconclusive. As such, Herath and Mahmood (2013) proposed integrating a moderator into the company success partnership in a strategic direction.

Environmental effects on EO, as well as on the relationship between EO and OP, have long been considered. Still, researchers have continuously carried out studies designed to explore linkages between environment and EO, or between EO and OP based on the effect of environment (Covin & Lumpkin, 2011). According to Jabeen and Mahmood (2014), as well as Jaben, Aliyu, and Mahmood (2016), it was contended that the EO-OP relationship highly relies on EE. According to Martins and Rialp (2013), EE has always been portrayed as a key contextual factor in the EO-OP relationship. The key reason EE was chosen as a variable in this study is that EE's importance to online business derives from the fact that no company operates in vacuum; companies must have an atmosphere in which to function and remain important for survival. A careful analysis of the market environment will give a firm the awareness of how to address the problems in the field in which it operates (Aliyu & Mahmood, 2015). Having that said, the following is hypothesised:

*H<sub>2</sub>. The relationship between entrepreneurial orientation (EO) and organizational performance is moderated by external environment (EE).*

#### Extension of Resource Based View (RBV) Theory

The Resource-Based View (RBV) theory is one of the most important theories in strategic management literature since the 1990s (Chen, 2012). Essentially, the RBV upholds the notion that firms have heterogeneous resources and the resources remain imperfectly mobile over time (Thoo Ai Chin, 2014). The RBV theory is useful in enhancing the competitive advantage of an organisation through EO, as the aspects of internal capability are equated to internal strength of the organization.

This study will focus on EE as the moderator to enhance the EO-OP relationship, apart from contributing to the RBV theory that suggests the existence of EE in the EO-OP relationship (Barney, 1991). Given the previously held belief that EE plays an important role, the changes and unpredictability in EE in which firms operate determines how they fit and their ensuing performance.

As such, this present study proposes the potential moderator role of EE to enhance the EO-OP relationship, as well as to extend the RBV theory, in which the RBV theory exerts a strong impact on an organisation about how it can perform better than other organisations within the same market. The extended RBV theory in this study demands e-business to be proactive and nurture an enabling business performance that facilitates both EO



and EE among its employees to stay relevant and sustainable in the cutting-edge competitive market.

Figure 1 illustrates the research model based on the proceeding discussion. Since the literature depicts inconclusive results pertaining to EO and OP, in this analysis EE will be adopted to determine its moderating impact on the postulated EO-OP relationship. Based on this model, EO is positively related to OP ( $H_1$ ) and it is conceptualised that EE moderates the EO-OP relationship ( $H_2$ ).

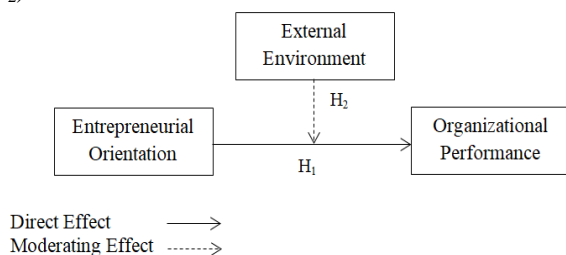


Figure 1: Research model

#### 4. Methodology

The population of this study consists of all active online businesses registered in Malaysia retrieved from the Companies Commission of Malaysia (CCM). The sampling table by Krejcie and Morgan (1970) is used to assess the minimum sample size to ensure an adequate statistical capacity to investigate and describe the variables under investigation. As a result, 381 active e-businesses in Malaysia are suggested based on the sampling table to adequately assess the accessible population of the study.

This research will follow the quantitative approach using self-administered questionnaires to collect data. All statements pertaining to EO, EE, and OP will be adopted and adapted from prior studies (Bolton & Lane, 2012; Lumpkin & Dess, 2001; Lumpkin, Cogliser, & Schneider, 2009; Naman & Slevin, 1993; Lo, Wang, Wah & Ramayah, 2016; Azlin Shafinaz Arshad, 2016). All key variables will be measured by multiple statements, as this strategy affords greater degrees of freedom when partitioning the data into groups. Therefore, this allows for the correction of measurement error, thus increasing precision and predictive validity (Hair et al. 2014). The statements will be grouped in parts without arbitrary order based on the statement's specific goals and contexts (Burns & Bush, 2005). After data collection, the post-hoc Harman single-factor analysis will be conducted to ensure that the variation in data is not explained by a single factor and thus removes the traditional method bias. The five-point Likert scale will be used, with the exception of demographic data, to assess the items with 1 suggesting strongly disagree and 5 signifying strongly agree. Expert validation and pre-test will be conducted to secure face validity of the questionnaire in this study. A pilot test using the target respondents will be conducted to finalize the questionnaire's usability (Bryman & Bell, 2011).

The stratified sampling technique will be employed to distribute the questionnaires to the online businesses established in Malaysia. Here, three criteria will be set to select the respondents, namely: (1) must be the owner/founder of the online business in Malaysia, (2) must be registered under the CCM, and (3) the establishment must be more than 1 year. Upon employing the quantitative approach, 400 questionnaires will be distributed to the target population. The gathered data will be analysed using Structural Equation Modelling (SEM) via SMART PLS 3.0. The latter algorithm, which uses partial least square (PLS-SEM) structural equation modeling approach, will be applied to improve the predictive significance aspect by optimizing variance of main target variables with specific explanatory variables (Hair et al., 2014; Henseler et al., 2009).

#### Data Collection

To gather statistical data, the questionnaire will be hosted by the researcher. The survey involved questions that were designed and made for the purpose of collecting statistical data used for quantitative analysis. All survey were anonymous and respondents were ensured that their personal information will remain unknown. The data will be collected using a self-administered questionnaire.

#### 5. Data Analysis

##### Reliability Test

The reliability test is carried out to learn the reliability of the products in each variable. The commonly used coefficient of reliability is the Cronbach alpha, where it tests internal consistency by evaluating how all things on a test relate to all other elements. A Cronbach alpha of 0.7 and ideally close to 0.9 is considered useful and accurate (Hair et al., 2007; Sekaran, 2003)

##### Common Method Bias

A single-factor Harman test (Podsakoff et al., 2003) was performed to determine whether there were any issues related to common method bias (Memon et al., 2017). The typical method bias occurs if the majority of the overall variance is accounted for by one key factor, i.e. more than 50% (Podsakoff et al. 2003).

##### Structural Equation Modelling (SEM)

The Structural Equation Model (SEM) is the second-generation statistical tool commonly used by researchers to evaluate the construct interrelationship in a model. SEM is a multivariate technique that incorporates elements of factor analysis and regression, enabling the researcher to simultaneously analyze the relationship between observable variables and latent variables, as well as latent variables (Hair et al., 2014). According to Zainuddin (2014), SEM is the most efficient method for managing the CFA for the measurement model, analyzing the causal relationship between latent constructs in the structural model, estimating variance and covariance, and

testing the hypotheses for mediators and moderators (Ishamudin, 2016).

### Assessment of Moderator Analysis

To perform moderator analysis using interaction effect (moderator variable is continuous variable), external environment play a major role of moderator effect (reflective continuous variable) (Ramayah et al., 2018). This study applied the orthogonalizing approach (Henseler & Chin, 2010) to analyze moderator interaction effects using PLS-SEM in detecting external environment's moderating influence on the relationship between EO and OP. The orthogonalizing approach was preferred in this study is to minimizing estimation bias as it able to avoid multicollinearity issue (Henseler & Chin, 2010). The significant effect of external environment was assessed by using a bootstrapping re-sampling with 5000 re-samples.

### 6. Conclusion

Throughout the literature the essential role of EO throughout organizational success was extensively studied. This demonstrates that EO is a company's ability to be creative, risk-taking and constructive, having a direct relationship with the success of organizations. Besides, the value of EO on organisational performance depends on the extent to which external environments provide opportunities for the online business to explore their EO which enable the online business to capture opportunities when implementing the right decision making. The entrepreneur must also seriously enforce the EO that has been addressed extensively in order to encourage EO in organisation. This research may contribute towards EO's empirical evidence on the success of online companies. Since most of the studies on EO and organisational performance have been conducted among the established companies, therefore, this research shed some light on the online business settings. Their performances are a major concern due to initiative given by the government where government has provided a huge allocation to the ICT sector. It is to ensure that all ICT-related equipment and specifications can be established and that the communities in Malaysia, in particular online business users, can benefit from useful benefits. Thus, it is imperative that the online entrepreneur implement effective EO to enhance their performance and ensure their survival in digital sphere. The expected findings in this study able to serve as a guideline for e-business owners or founders to improve their organizational performance thus compete in the digital sphere. It is also suggested that similar future study emphasizes in depth on the ability of entrepreneurial orientation and external environment capabilities in sustaining e- business performance towards business uncertainties.

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