THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND ENTREPRENEURIAL LEADERSHIP TOWARDS SME PERFORMANCE: MEDIATING FACTOR OF INNOVATION PERFORMANCE

by

NURULHASANAH BINTI ABDUL RAHMAN

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LIST OF ABBREVIATIONS

AC	Absorptive Capacity
AVE	Average Variance Extracted
CAGR	Compounded Annual Growth Rate
CB-SEM	Covariance-Based Structural Equation Modeling
CCM	Commission of Companies Malaysia
CMB	Common Method Bias
CMV	Common Method Variance
CV-com	Cross-Validated Communality
CV-red	Cross-Validated Redundancy
EO	Entrepreneurial Orientation
EL	Entrepreneurial Leadership
EU	European Union
FRLT	Full Range Leadership Theory
GDP	Gross Domestic Product
ICT	Information Communications Technology
IT	Information Technology
LO	Learning Orientation
MARA	Majlis Amanah Rakyat
MLQ	Multifactor Leadership Questionnaire
MO	Marketing Orientation

NEP	New Economic Policy
PBC	Performance-based Culture
PERDA	Penang Regional Development Authority
PLS	Partial Least Square
PLS-SEM	Partial Least Square - Structural Equation Modeling
R&D	Research and Development
SSC	Socially Supportive Culture
SEM	Structural Equation Modeling
SME	Small and Medium Enterprise
SMECorp.	SME Corporation Malaysia
SPSS	Statistical Package for the Social Sciences
TEKUN	TEKUN Nasional
UK	United Kingdom
US	United States
WP	Wilayah Persekutuan

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HUBUNGAN ANTARA ORIENTASI KEUSAHAWANAN DAN KEPIMPINAN KEUSAHAWANAN TERHADAP PRESTASI PKS: PRESTASI INOVASI SEBAGAI FAKTOR PERANTARA

ABSTRAK

Walaupun terdapat pelbagai kajian yang dijalankan berkaitan orientasi keusahawanan (EO) dan kepimpinan keusahawanan (EL), hanya sebahagian kajian telah dijalankan ke atas Perusahaan Kecil dan Sederhana (PKS). Pelbagai bantuan kewangan dan sokongan telah disediakan untuk PKS, namun, Prestasi PKS masih dianggap rendah. Dengan mengambil kira kepentingan topik-topik berkenaan, kajian ini bertujuan mengenalpasti hubungan antara EO dan EL terhadap Prestasi PKS dengan Prestasi Inovasi sebagai pembolehubah perantara. Untuk mencapai objektif tersebut, pendekatan kuantitatif dipilih dan soal selidik telah dikumpulkan daripada 285 PKS di Pulau Pinang. Kaedah pensampelan yang digunakan ialah Pensampelan Sistematik dan Berstrata Tidak Berkadaran. *Statistical Package of Social Science* (SPSS) dan Model Persamaan Berstruktur telah digunakan untuk menguji model kajian dan mengesahkan semua hipotesis tentang kesan langsung dan tidak langsung EO dan EL melalui Prestasi Inovasi ke atas Prestasi PKS. Keputusan kajian ini menunjukkan bahawa hanya dua dimensi EO (inovasi dan proaktif) mempunyai hubungan signifikan dengan Prestasi PKS. Manakala,

mengambil risiko dan kedua-dua dimensi EL tidak mempunyai kesan langsung ke atas Prestasi PKS. Menariknya, semua dimensi EO dan EL mempunyai kesan langsung terhadap Prestasi Inovasi. Selain daripada itu, Prestasi Inovasi telah didapati mempunyai kesan langsung ke atas Prestasi PKS dan disahkan sebagai perantara yang signifikan antara EO dan EL terhadap Prestasi PKS. Walau bagaimanapun, pengaruh Kepimpinan Transformasi terhadap Prestasi PKS melalui Prestasi Inovasi tidak dapat dibuktikan. Oleh itu, dapatan kajian ini menunjukkan bahawa EO adalah faktor peramal yang kuat untuk Prestasi Inovasi dan Prestasi PKS, manakala EL adalah penyumbang kepada Prestasi Inovasi yang lebih baik berbanding Prestasi PKS. Hal ini bermakna bahawa PKS perlu memberi tumpuan yang lebih dalam menghasilkan nilai tambahan dan ciri-ciri unik produk/perkhidmatan untuk memastikan perniagaan mereka berdaya saing. Dengan cara ini, PKS dapat menjadi lebih relevan dan berdaya saing dalam pasaran semasa. Selain itu, EL mendorong pekerja untuk merancakkan inovasi dalam PKS supaya dalam jangka masa panjang Prestasi PKS akan meningkat dengan ketara.

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ABSTRACT

Despite the extensive research in the domain of Entrepreneurial Orientation (EO) and Entrepreneurial Leadership (EL), very little work has been done on small and medium enterprises (SME). There is numerous financial assistance and supports have been provided to SME, however the SME Performance is still considered as low. By taking into account the relevance of these research topics, this study aims to identify the relationship between EO and EL towards SME Performance with Innovation Performance as a mediator. In order to achieve these objectives, quantitative approach is chosen and questionnaires are collected from 285 SME in Penang. The sampling technique used is Disproportionate Stratified Systematic Sampling. Statistical Package of Social Science (SPSS) and Structural Equation Modelling (SEM) are used to test the research model and verify all hypotheses on the direct and indirect relationships of EO and EL through Innovation Performance on SME Performance. The results of this study showed that only two dimensions of EO (innovativeness and proactiveness) have significant relationships with SME Performance. However, risk-taking and both

dimensions of EL failed to reveal the direct impact on SME Performance. Interestingly, all dimensions of EO and EL established a direct impact on Innovation Performance. Also, Innovation Performance is identified to have a direct effect on SME Performance and confirmed as a significant mediator between EO and EL with SME Performance. Nevertheless, there is no evidence to link Transformational Leadership and SME Performance through Innovation Performance. In addition, these findings indicate that EO is a strong predictor to both Innovation Performance and SME Performance, whereas EL is significantly contributes to the Innovation Performance stronger than the SME Performance. It means that, SME needs to focus on how to add value and unique characteristics of products/services to ensure their businesses are competitive. In this way, SME is more relevant and competitive to the current market. Besides, EL motivates employees to accelerate the innovation in SME, thus, in the long run will significantly improve the SME Performance.

CHAPTER 1

INTRODUCTION

1.1 Research Background

Over the years, Small and Medium Enterprise (SME) has shown remarkable contributions towards global economy and market growth (Ayyagari, Beck, & Demirguc-Kunt, 2005; Gibson & Van der Vaart, 2008; Kushnir, Mirmulstein, & Ramalho, 2010) including Malaysia. Many countries such as United Kingdom (UK), China, and Singapore among others have continued to emphasise the importance of developing a vibrant SME sector. In UK, total employment of SME accounts to 60 percent and 99.9 percent of businesses are SME (Department for Business Innovation & Skills, 2015) whereas in China, SME contributes 60 percent of the national's industrial output with 80 percent of job creation (UHY China, 2016). In Singapore, SME employs half of the working population and contributes about 99 percent of business establishments (SPRING Singapore, 2016).

The existence of SME in the economic landscape in Malaysia is also prevalent as 97.3 percent (645,136 firms) of the total business establishments is SME (SMECorp. Malaysia, 2016b). SME's GDP growth has consistently outpaced the

overall economic growth in Malaysia since the year 2004. Also, the SME's average compounded annual growth rate (CAGR) from 2005 to 2014 is 7.1 percent which is higher than the CAGR of the Malaysia's overall economy (4.9%). SME also contributed 56 percent of total employment and 17.8 percent of total exports in 2014 (Hashim, 2015). Despite the positive performance of SME in recent years, contribution of Malaysia's SME to the overall nation's economy remains relatively smaller compared to the other advanced and developing countries.

According to International Finance Corporation (IFC), a World Bank Group, the standard SME's GDP for middle income country is at 39 percent (IFC, 2010). However, SME's share to overall GDP in Malaysia is reported at only 33.1 percent which is still considered as unsatisfactorily (SMECorp. Malaysia, 2016b). Based on the percentage, SME in Malaysia is deemed as a low income sector. Therefore, in continuing to strengthen the SME sector, it demands for more research that focuses on SME Performance in Malaysia. Even though numerous studies had been conducted to unearth the issues surrounding SME Performance, a more recent literature reported that, there is a limited pool of resources regarding these phenomena (Zulkiffli & Perera, 2011, Amin, 2015). Scarcity in the literature warrants a further critical analysis on the predictors of SME Performance.

Past studies witnessed that Entrepreneurial Orientation (EO) is among the extensively studied predictor to SME Performance (see Engelen, Kube, Schmidt, & Flatten, 2014; Amin, Thurasamy, Aldakhil, & Kaswuri, 2016; Semrau, Ambos, & Kraus, 2016). Muehjohn and Armstrong (2008) stated that EO is significantly influences business performance. In another study, Arshad, Rasli, Arshad, and Zain (2014) examined EO and Performance in technology-based Malaysia's SME. The authors concluded that EO is positively related to performance with innovativeness as the strongest predictor to performance. In the same vein, Amin (2015) found that EO leads to SME Performance because EO dimensions drive SME owners to be more alert with the environment and quickly adapt to the market changes. His study revealed that SME with a high degree of proactiveness provides competitive advantage from competitors.

Even some scholars found the potential relationship between EO and Performance, there is a mass of literature failed to provide evidence in supporting the direct relationship. Naldi, Nordqvist, Sjoberg, and Wiklund (2007) noted that EO-Performance relationship in Swedish SME is insignificant. Therefore, the authors proposed that the EO-Performance link is indirect and a third variable is needed to further explore the nature of the relationship. Another study by Zahra (2008) also failed to provide evidence to establish the relationship between EO and Performance of small business in United States. Instead, the author indicates

that EO-Performance relationship is contingent upon other factors. The findings strengthen the emergent idea that EO-Performance relationship is indirect. Moving from the mixed findings, the literature has progressed to investigate the effects of mediating or moderating variables (George, Wood, & Khan, 2001; Zehir, Can, & Karaboga, 2015) to shed light on the relationship between EO and Performance. Since there is no consensus in previous studies with regard to EO as predictor to SME Performance, this study expands the research magnitude to scientifically test factor that may possibly mediates the EO-Performance relationship.

In addition to EO, Entrepreneurial Leadership (EL) is also a widely reported factor of SME Performance. Notwithstanding the influence of leadership, SME Performance is expected to improve with an effective leadership approach (Arham, 2014; Franco & Matos, 2015). In general, there are two types of EL; namely the Transactional and Transformational Leadership. Transformational leaders motivate the employees to put aside their self-interests for the sake of the larger vision of the business. These leaders inspire followers with their vision and create excitement through enthusiasm (Bass & Avolio, 1990). Meanwhile, Transactional leaders determine what their followers should do to realise their personal and organisational aims (Vargas, 2015). Although many studies have reported the relationship between EO and EL towards business performance, the

impacts of EO and EL on Innovation Performance had received relatively less attention which reflects its relevance to be further investigated in this present study.

Further, leadership is another aspect in SME that has been identified as the central element in influencing the Innovation Performance. The role of the entrepreneurial leader is increasingly becoming an important determinant of innovation (Saad & Mazzarol, 2010). In addition, Slimane (2015) pointed out that leaders in SME (owners/managers) are necessarily act as the innovators considering their contribution in adopting innovation in business. Innovation can only occur if the capacity to innovate exists in a SME (innovation capacity). Another study by Whittaker, Fath, and Fiedler (2016) examined elements for SME to enhance Innovation Performance in New Zealand's SME. The research concluded that business leader is associated with Innovation Performance of the firm. Based on the above discussion, innovation is justified as a potential variable to be studied as a mediator towards SME Performance, and deserves more studies in this manner.

By reviewing past literature, there are mixed results on the relationships among all independent variables (EO and EL), and a mediator (Innovation Performance) towards dependent variable (SME Performance). However, the direct link between EO and EL towards Innovation Performance is less prevalent in the literature; thus, open-up a new path for more research on these relationships. Also, there are endless discussions to find the differences between innovativeness as dimension of EO and Innovation Performance. Innovativeness refers to the way of thinking, specific behaviour, and action of a person (SME owners) in adopting innovation (Amin, 2015). Meanwhile, Innovation Performance reflects the results of innovation adoption of a business (Alegre & Chiva, 2013).

By referring to the discussions narrated in the preceding paragraphs, it is a unique attempt to study EO and EL as Entrepreneur's Characteristics impacting Innovation Performance and SME Performance. Review from the literature leads to a conclusion that few researchers had studied the direct relationship between EO and SME Performance. Some of them had proposed for future studies to include mediator in developing a more robust model in explaining the relationship (Aliyu, Rogo, & Mahmood, 2015). Mediator used in this study will deepen SME literature on innovation as literature is developing from studying types of innovations or innovation capability to a more topical issue which is

Innovation Performance (Alegre & Chiva, 2013, Zehir et al., 2015). Within this framework and acknowledging the strategic roles of SME in our economy, this study focuses on the mediating role of Innovation Performance on the relationship between EO and EL to influence SME Performance.

1.2 Problem Statement

The Malaysia government through SMECorp. has initiated various strategies to improve the SME Performance in Malaysia such as providing financial support and roadmap for innovation (Hashim, 2015). However, SME contribution in terms of GDP in Malaysia is still low compared to other middle income countries as Malaysia is left behind with 6 percent (refer to Figure 2.1 on page 27). SME contribution is not up to the expectation because the targeted GDP for the year 2015 is at 40 percent (The Star Online, 2015a) while as at January 2015, the GDP recorded is at only 33.1 percent (Hashim, 2015). The full report of this data is summarised in Chapter Two. Improving SME Performance is an ongoing agenda for the Malaysia government through numerous establishments of SME agencies through federal and state level. Although SME establishment in Malaysia is accounting to 97.3 percent of business establishment, Ahmad and Seet (2009) reported that SME in Malaysia is still at infancy stage. The authors added that, due to the high business failure rate, 60 percent of SME failed for the

first five years of operation. Among those who managed to survive, their performance is still low (Hashim, 2015).

Looking at this worrying fact, Amin (2015) revealed that EO is potentially helpful to secure SME Performance. As such, EO is critical to SME as it provides strategic approach when dealing with market uncertainty and variation of customers' preferences. Previous literature also highlights that EL is crucial for the SME to improve performance (Yang, 2008; Wang, Tee, & Ahmed, 2012; Zijlstra, 2014). However, SME owners pay inadequate attention to the issue related to EL and studies on this topic are also insufficient (Franco & Matos, 2015; Vargas, 2015). Thus, there is a need for more studies on EL (in SME) to be conducted because evidence on leadership impact on SME is inadequate (Arham, 2014). According to Albloshi and Nawar (2015), effective leaders are needed to motivate employees to take on new challenges and strive to achieve outstanding business results. Besides, findings from previous studies revealed that different leadership approaches may have different effects on performance. Therefore, it motivates this study to evaluate how leadership approach contributes to an improved SME Performance in Penang, Malaysia.

Some previous studies have integrated innovation as a mediating variable between EO and profitability (Baker & Sinkula, 2009; Lee, Hallack, & Sardeshmukh, 2016). However, the study is only limited to such relationship without taking into consideration the EL and other dimensions of performance. In addition, a very limited study has focused on the Innovation Performance impact on SME Performance (Alegre & Chiva, 2013; Gunawan, Jacob, & Duysters, 2016). Findings on the direct link between Innovation Performance and SME Performance found mixed results and remain unresolved as some studies (Tajasom, Hung, Nikbin, & Hyun, 2015; Lee et al., 2016) found no relationship between these two variables.

In addition, due to the mixed results, this study aims to confirm the EO-Performance relationship as suggested by previous studies (Arham, Boucher, & Muenjohn, 2013; Saeed, Yousafzai, & Engelen, 2014; Aliyu et al., 2015). There is an urgency to introduce a third variable as a mediator to facilitate this concern due to the low prediction capability of direct independent-dependent relationship as revealed in previous studies (Rauch, Wiklund, Lumpkin, & Frese, 2009; Muchiri & McMurray, 2015). This effort is meaningful due to the current low performance of SME, despite the financial and non-financial assistance given to the SME (Hashim, 2015). Further, this study also proposes to investigate the role of EL in predicting performance and identify which leadership approach has

stronger effect on SME Performance. In response to the critics by Avlonitis and Salavou (2007) on the limited discussion on Innovation Performance, it is necessary to include leadership impact towards SME Performance. The relationship between Entrepreneur's Characteristics (EO and EL) towards Innovation Performance will also shed some lights on how it benefits SME in Malaysia. Therefore, the study on EO and EL together in one model, as predictors to SME Performance will fill the gap from previous studies to explain these relationships in local business setting.

Despite the growth of literature on EO and EL, understanding of its characteristics and their capabilities in SME is still relatively limited (Yang, 2008; Engelen, Gupta, Strenger, & Brettel, 2015). Furthermore, employing Innovation Performance as a mediator also contributes to the existing literature in understanding of the direct and indirect relationships between EO and EL towards SME Performance. Nevertheless, very few studies have been done in Northern area of Malaysia particularly among Penang SME (i.e.: Farouk, 2012, Hassan, Ramayah, Mohamed, & Maghsoudi, 2015). With that, there is an urgency to conduct this study in Penang, Malaysia, as it involves different business environment and research settings.

1.3 Research Objective

In line with the background of the study and problem statement as narrated above, this study is aimed to achieve the following research objectives:

1. To examine the direct relationship between EO (innovativeness, proactiveness, and risk-taking) and SME Performance.

2. To examine the direct relationship between EO (innovativeness, proactiveness, and risk-taking) and Innovation Performance.

3. To examine the direct relationship between EL (Transformational and Transactional) and SME Performance.

4. To examine the direct relationship between EL (Transformational and Transactional) and Innovation Performance.

5. To examine the direct relationship between Innovation Performance and SME Performance.

6. To examine the mediating role of Innovation Performance on the relationship between EO (innovativeness, proactiveness, and risk-taking) and SME Performance.

7. To examine the mediating role of Innovation Performance on the relationship between EL (Transformational and Transactional) and SME Performance.

1.4 Research Question

This study also aims to answer the following research questions:

1. Does EO (innovativeness, proactiveness, and risk-taking) have a direct relationship with SME Performance?

2. Does EO (innovativeness, proactiveness, and risk-taking) have a direct relationship with Innovation Performance?

3. Does EL (Transformational and Transactional) have a direct relationship with SME Performance?

4. Does EL (Transformational and Transactional) have a direct relationship with Innovation Performance?

5. Does Innovation Performance have a direct relationship with SME Performance?

6. Does Innovation Performance mediate the relationship between EO (innovativeness, proactiveness, and risk-taking) and SME Performance?

7. Does Innovation Performance mediate the relationship between EL (Transformational and Transactional) and SME Performance?

1.5 Scope of Study

This study aims to investigate the impact of EO and EL towards SME Performance through the mediating variable which is Innovation Performance. The targeted samples are SME in Penang particularly the registered SME governed by SME agencies such as PERDA, MARA, and SMECorp. Data collection was carried out from February 2016 until May 2016.

1.6 Significance of Study

This study intends to test the Innovation Performance as a mediator to the relationship between EO and EL towards SME Performance. The following sub-sections explain the significance of this study from the perspective of literature, theoretical, and managerial.

1.6.1 Literature

This study contributes to the pool of resources on SME literature especially in Malaysia - as one of the emerging countries. Since literature is abundant with research evidence from Western countries or other developed countries, this study expands the literature by highlighting SME phenomena in a developing country. This study also proposes new dimensions of SME studies by studying

EO and EL altogether to predict SME Performance. In addition, the findings of this study intensifies SME literature by empirically investigate the impact of Innovation Performance on SME Performance. Previous studies had reported on the direct relationship between SME Performance and its predictors with less attention on the indirect relationship. Thus, this study contributes to the literature by exploring the indirect relationship among variables and strengthens the theoretical framework on SME Performance. These contributions expand the literature on the direct and indirect relationships between Entrepreneur's Characteristics and performance in the context of SME in Malaysia.

1.6.2 Theoretical

Theoretically, this study strengthens the recent approaches introduced to model entrepreneurial activities using Resource-Based Theory and Full Range Leadership Theory (FRLT). With regard to Resource-Based Theory, this study contributes to the theory development by explaining the role of Resource-Based Theory in handling resources to enhance SME Performance. In terms of FRLT, the relevancy of this theory to represent the reality of SME in Malaysia is presented by taking into account the classification of industry, size, and nature of business. Thus, by providing empirical evidences using the theoretical framework in this study, it proved the applicability of these theories into SME studies.

1.6.3 Managerial

Findings from this study provide input of EO, EL, and Innovation Performance for managerial decisions in SME. For instance, the SME agencies should develop training scheme in relation to innovativeness, proactiveness, and leadership as part of SME programmes to enrich entrepreneurs with skills and how to add value to their products/services. In addition, the government through SME agencies (such as PERDA, MARA, and SMECorp.) is encouraged to accelerate innovative cultures among SME. Providing platforms for entrepreneurs to participate in trade expos or leadership trainings are among measures to intensify entrepreneurs' involvement in innovative activities which in turn improve their business performance. In this study, the EO effect on SME Performance is higher than EL. Therefore, it provides suggestions for SME agencies to focus on the training programmes or entrepreneurial modules on the EO and its implication towards SME Performance.

1.7 Definition of Key Terms

The key terms used in this study are defined in the following sub-sections:

1.7.1 SME Performance

Based on Zehir et al. (2015), SME Performance in this study is measured using subjective measures depending on the judgmental assessments from the respondents. The measurement covers both financial and non-financial indicators. Due to the difficulty to obtain objective measures (published financial data) from SME, subjective measures are more appropriate to be used. Therefore, in this study, SME Performance reflects on the efficiency and effectiveness of a firm in utilizing its resources to generate economic outcomes (Arham, 2014; Wolff, Pett, & Ring, 2015). In particular, it refers to the profit (financial), market, and customer performance of the SME.

1.7.2 Innovation Performance

Gunawan et al. (2016) defined Innovation Performance as the firm ability in developing new products/services. New products and services are seen as indicators of Innovation Performance because they reflect a firm ability to adapt to market changes. In addition, Tajasom et al. (2015) portrayed Innovation

Performance as the outcome of a firm on how inventions are introduced to the market. In this study, Innovation Performance is described as the efficacy and efficiency of new products/services introduced to the market during the preceding years. Efficacy of Innovation Performance refers to the degree of success of an innovation in a business whereas efficiency refers to the effort carried out to achieve efficacy.

1.7.3 Entrepreneurial Orientation (EO)

According to Miller (1983) as well as Covin and Slevin (1989), original conceptualization of EO refers to the firm-level component that exists in terms of innovativeness, proactiveness, and risk-taking as features of a business strategic approach (see Semrau et al., 2016). In this study, EO is measured using three constructs as proposed by the aforementioned scholars; namely on innovativeness, proactiveness, and risk-taking. Following definition from Wiklund and Shepherd (2005), innovativeness refers to the tendency and the behaviour that contribute to innovation by supporting new ideas, experimentation, and creative processes. Proactiveness refers to the firm's ability to stay ahead from competitors in predicting future changes (Gunawan et al., 2016) while risk-taking involves the act of willingness to undertake risky business decision such as investment (Rauch et al., 2009).

1.7.4 Entrepreneurial Leadership (EL)

Gupta, MacMillan, and Surie (2004) defined EL as leadership that creates visionary settings that is used to assemble and mobilise employees who are committed by the vision and provides exploitation of strategic value creation in a business. Particularly for this study, EL is divided into two constructs as introduced by Bass & Avolio (2004), which are Transformational and Transactional Leadership. Following Burns (1978) and Bass (1985) definitions, Transformational Leadership is a process where leaders motivate their employees to perform beyond expectations. While, Transactional Leadership is the type of leadership where employees who portrayed good performance will be rewarded and those who do not will be penalised (see Franco & Matos, 2015). Therefore, there are five constructs of Transformational Leadership; namely Idealized Influence (Attributes), Idealized Influence (Behaviours), Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration. Meanwhile, Transactional Leadership consists of two dimensions; namely Contingent Reward and Management-by-Exception.

1.8 Structure of Remaining Chapters

This thesis consists of five chapters. **Chapter One** discusses on the research background, problem statement, research objectives, research questions, significance of the study, and the definitions of key terms. **Chapter Two** elaborates on the literature review on SME definitions, SME development in Malaysia and SME studies conducted from various researchers. Besides, this chapter also reviews the literature on each variable in this study: EO, EL, Innovation Performance, and SME Performance. This chapter ends with the research framework and development of the hypotheses. **Chapter Three** discusses on the research methodology including the details of population and sample, questionnaire design, variables and its measurements, data collection procedure, and the data analysis techniques. Detailed descriptions of the instrument validity and reliability, as well as the results of the pilot test are also discussed accordingly.

Chapter Four presents the results of the statistical analysis and research findings. An analysis of structural model using Partial Least Square-Structural Equation Modelling (PLS-SEM) with the aim to provide answers to research questions and hypothesis testing are presented. Finally, **Chapter Five** discusses the research findings in relation to the research objectives listed in Chapter One. Chapter Five also discusses the implications of this study. The limitations of the

study and suggestions for future studies are also presented. This chapter ends with the overall conclusion of the study.

1.9 Summary

This chapter has discussed the introduction and problem statement of the study. A brief background on the research issue and its identified problems indicate the gaps that need to be filled. The research objectives and research questions provide the clear guidance for the direction of this research. Besides, the significance of this study has been clearly pointed out to explain the implication of the research towards literature, theoretical, and managerial. In the next chapter, this study critically reviews literature on EO, EL, Innovation Performance, and SME Performance.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter starts with the SME definition to outweigh the inconsistency definitions from literature. Since economy in Malaysia had continuously experienced tremendous changes in terms of the structural, price inflation, and business trends, the SME definition for Malaysia from SMECorp. has been revised to reflect the current economic environment of Malaysia. Further, SME development after independence until now is presented in Section 2.3. By looking at the strategic role of SME to the Malaysia economy, a mass of studies has been conducted to unearth various issues related to SME Performance. Section 2.4 reviews the previous research on SME and identifies the research gaps to be resolved.

The research gap in this study is related to SME Performance. The predictors towards SME Performance are still not conclusive and demand further research on this topic. Among significant variables discussed to predict SME Performance are Entrepreneurial Orientation (EO), Entrepreneurial Leadership (EL), and Innovation Performance. Thus, the relationship between these variables and SME

Performance is further established. Besides, Innovation Performance as being highlighted in previous studies to be significant with SME Performance is set as a mediator in this study. The underpinning theories for this study are Resource-Based Theory and Full Range Leadership Theory. The details of these theories are presented in section 2.8.1 on research framework. This chapter ends with research framework and hypothesis development.

2.2 SME Definitions

Different countries define SME in an inconsistent framework due to geographical placement, economic position, political agenda, and specific legislation (Hooi, 2006; Scheers, 2011; Smit & Watkins, 2012; Husin & Ibrahim, 2014). Early definitions of small businesses are largely qualitative and often quite vague (Association of Chartered Certified Accountants, 2010). However, as many countries are trying to fit the definition for their people, the definitions are now gradually shifted towards more objective measures in terms of sales, number of employees, and locality, as proxies to determine the size of firm.

To date, there is no single agreed definition of SME. However, some countries define SME based on a group of key variables such as: legal status, business sector, number of employment, sales turnover, capital investment or balance

sheet figure (Hooi, 2006; ACCA, 2010; Scheers, 2011). Further, Smit and Watkins (2012) pointed out that the geographical placement of SME and specific legislation of a country also influence the SME definitions globally. Therefore, the number of full-time employees and sales turnover are the commonly used criteria in defining SME worldwide (Husin & Ibrahim, 2014; SMECorp. Malaysia, 2016a).

World Bank defines SME as business employing less than 300 full time employees with maximum assets and turnover by USD 15 million (Katto, 2008). Even general definitions have been established across the globe (which mostly derived from World Bank's definitions); the applicability of this description is still not inclusive to other countries. According to Kushnir et al. (2010), they have considered 132 economies concerning the SME classification alongside with the World Bank definition. In the case where the definition did not match the local one, the local definition took precedence.

Generally, SME in Malaysia is divided into three categories; namely micro, small and medium enterprises with micro enterprise as the smallest business entity. Based on the Economic Census 2011, out of the 662,939 businesses established in Malaysia, 645,136 establishments (97.3%) are contributed by SME

(SMECorp. Malaysia, 2015a). From there, 77 percent is derived from micro enterprise and 20 percent is from small businesses with the remaining three percent from medium enterprises. SME in Malaysia contributes 33.1 percent of the nation GDP and 56 percent of the total employment (Hashim, 2015). Within the expanding scope of SME establishment, it is necessary for Malaysia to provide a systematic definition of SME as summarised in Table 2.1.

Table 2.1

SME Definition in Malaysia

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR Less than 5 full-time employees	Sales turnover from RM300,000 to less than RM15 million OR Full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million OR Full-time employees from 75 to not exceeding 200
Services and Other Sectors	*Same as above*	Sales turnover from RM300,000 to less than RM3 million OR Full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million OR Full-time employees from 30 to not exceeding 75

Source: SMECorp. Malaysia (2013), p.2