

# **ENTREPRENEURIAL ORIENTATION DIMENSIONS, BARRIERS OF ACCESS TO FINANCE AND SMALL BUSINESS PERFORMANCE: A PROPOSED CONCEPTUAL FRAMEWORK**

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**Abstract** - Small and Medium Size Enterprises (SMEs) have sparked a heated debate among researchers since last decade. Recognizing the significant contribution of SMEs included small business in enhancing Gross Domestic Product (GDP), entrepreneurial development, export performance, poverty alleviation, employment opportunity, equal distribution of income, domestic savings, income distribution and tax revenues to local economy as well as country, etc. numerous support programmes emphasize on the development of entrepreneurial orientation (EO) since EO at the organization level is a behavioural construct that has been successfully measured and has been positively correlated in improving performance. Some prior studies, however, contend that the relationship between entrepreneurial orientation and firm performance may be more complex than a simple main effect. Based on Resource Based-View (RBV) Theory, the firm must have valuable resources and capabilities as a source of sustainable for competitive advantages. Access to finance can be considered as crucial source needed by small businesses to help them set up and expand their operations, develop new products and invest in new staff or production facilities. This study provides a proposed conceptual framework for the relationship between entrepreneurial orientation and small business performance. This study also attempts to connect the mediating role of barriers of access to finance and moderating role of firm size in the relationship between EO and small business performance. The conceptual model is founded in a synthesized understanding of these three main construct by supporting from previous literature. A study of this nature is vitally-important to highlight the stakeholder such as government, private bodies, NGOs, policy maker and small entrepreneurs on the important of EO and accessibility to finance on performance of small business sector.

**Keywords:** Entrepreneurial orientation, barriers, access to finance, small business, performance, firm size.

## **1. Introduction**

Generally, Small and Medium Enterprises (SMEs) can be a cushion for unstable economy condition. They are believed can be strengthening the economic development in countries. The statistics shows that they are accounted more than 80 per cent of economic development in most countries worldwide, particularly 97.3 per cent in Malaysia economy (SME Corporation Malaysia, 2015). This data depicts that SMEs plays vitally-important role in economic growth.

Additionally, SMEs give value added to domestic as well as international economy. For instance in Indonesia, they become the main contributor to domestic savings, employment opportunities, equal distribution of income, poverty relief, entrepreneurial development of an economy and export growth (Tambunan, 2011). In Thailand, SMEs advance in term of innovation, better distribution of income, well entrepreneurial skills and spirit due to the wider geographical presence compared to large firm (Panitchpakdi, 2006).

Likewise, they also give significant impact on manufacturing exports performance of East Asia, for instance, Taiwan (56%), China and the Republic of Korea (over 40%) respectively, (Singh, Garg, & Deshmukh, 2010). Not only that, they generate income for small entrepreneurs who usually is underprivileged and poor (Rahman & Ahmad, 2010). The study conducted by UNCTAD (2001) confirmed that high rate of small business proved to generate income for them. Even, Ahmad Fida (2008) stated that they have important impact on the income distribution, besides generating employment opportunity and tax revenues.

Despite its increasing importance to the economy and individual entrepreneurs, SMEs specifically small enterprises struggle hard to access to finance (Klonowski, 2012). This means that access to finance is the most challenging tasks facing by them, especially in the less developed region (Harvie et al., 2011). However, it remains unclear how credit facilities would enhance the performance of small business. Prior literature show inconclusive results which some of the findings was not significantly translated into their studies (eg Atieno, 2009). Awang et al. (2010) reminded that one of the failure factors of accessing to finance is because of the lack of the quality in their strategic framework which not meet financial institution requirements. Strategic framework could come from entrepreneur themselves. Fatoki (2012) assumed that entrepreneurial orientation could be vitally-important entrepreneurial approach for business success.

Most of previous studies, however, focused on the direct relationship between entrepreneurial orientation and business performance (see Moreno & Casillas, 2008; Avlonitis & Salavou, 2007). They also incline to use three dimensions of entrepreneurial orientation (see Wiklund & Shepherd, 2005; Tarabishy et al., 2005; Messeghem, 2003; Kreiser et al., 2002; Wiklund, 1999; Covin & Slevin, 1989; Miller, 1983). Besides that, the previous studies also overlooked the mediator impact of access to finance on business performance. This is sensible, whereby entrepreneurial orientation is not directly influence to small business performance (Rauch & Frese, 2009; Moreno & Casillas, 2008; Avlonitis & Salavou, 2007) but must get support with financial access in order to increase their business performance. Instead of that, this study also found that, there are previous literatures discussed about the suitable moderator that will be effect the relationship of EO and business performance such size of the firm (see Zahra & Garvis, 2000; Lumpkin & Dess, 1996; Zahra, & Covin, 1995). They believed that a firm with high degree of EO and supported with large number of employees will perform better compared to firm with lack of number of employees.

Hence, in order to fill these gaps, this study aims to provide a proposed conceptual framework for the relationship between entrepreneurial orientation and small business performance. This study also attempts to connect the mediating role of barriers of access to finance and moderating role of firm size in the relationship between EO and small business performance.

## **2. Literature Review**

### **2.1 Small Business Performance**

In Malaysia, many prior researchers considered that most of the enterprises from SMEs category were small-scale business (Rosman & Mohd Rosli, 2011). This is in line with the study done by APEC (2013), whereby majority of the business in worldwide come from small and micro enterprise. However, there was no standard definition and measurement to represent small business. Different countries used different methods to define it. Normally, APEC countries define small business by using number of employees, total capital and investment, total sales and revenue, total asset and sector (refer APEC, 2010, p. 3). In Malaysia, enterprise which has sales turnover from RM300,000 to less than RM15 million or full-time employees from 5 to less than 75 for manufacturing, agro-based industries and mrs is includes in small business. Moreover, for primary agriculture, services and ICT sector which indicates sales turnover from RM300,000 to less than RM3 million or have full-time employees from 5 to less than 30 is considered as small business.

The term of business performance resembles a mirror to a business. Consequently, firm's capability and capacity is always reflects to their performance (Bonn, 2000). Generally, business performance can be defined as the achievement of business goal and objectives within specific period (Achrol & Etzel, 2003). To Swanson (1999), performance means completion and achievement. Moreover, he added in business performance can be defined as the production value of output in the form of goods or services. Besides that, in others words business performance can be said as success of the business from internal or external goals and objectives (Lin, Peng & Kao, 2008).

Small business performance is a complex issue and has many different characteristics and scope (Scase & Goffee, 1987). Small business performance cover internal and external factors, such as goals and capabilities, owner or manager motivation, organisational factors, infrastructure, resources and external networking and relationships (see Storey, 2004, Mitra and Matlay, 2000; Shaw and Conway, 2000).

### **2.2 Entrepreneurial Orientation (EO)**

Entrepreneurship as defined by Hisrich and Peters (1992) is the process of generating new thing with new value by dedicating the effort and specific period, assuming the financial, social and psychological risks. They added it also must be rewarded with financial reward or self-satisfaction.

Historically, the model of entrepreneurial orientation (EO) was introduced by Miller (1983). He assumed that a firm can be considered to behave entrepreneurially when that firm shows consistency in their innovation, willing to take risk and aggressive competitiveness among their competitor. Not only at organizational level, EO also concerned at individual level who willing to change and receive new responsibility and opportunities (Morris et al., 1994, p. 26).

To Walter et al. (2006, p. 549), EO refers to behaviour, processes and tendencies that bring to existing or new products and services through new or existing market. While, Rauch and Frese (2009) stated that EO is refers to the strategy includes any entrepreneurial actions and decisions at the organisation level.

### 2.2.1 Dimensions of EO

The suitability of exploring the dimensions of EO multidimensionality or in unidimensionality is a matter of theoretical viewpoint (Covin & Wales, 2012; Covin, Green, & Slevin, 2006). The prior dimensions of entrepreneurial orientation were developed by Miller (1983) namely; innovation, risk taking and aggressive competitiveness. However, these dimensions is changing reflects the changes in time (see Table 1).

Presently, based on different models of corporate entrepreneurship, they include five key features such as innovation, risk taking, pioneering, proactiveness and independence (Callaghan, 2009). The study, therefore, takes these factors into account to measure entrepreneurial orientation. These components usually have seen as company innovative performance accelerators, adapt quickly, and respond strategically to changes in an external environment.

Table 1: EO Dimension in Previous Studies

Author (s)	EO Dimensions
Miller (1983)	Innovation, risk taking and pioneering
Covin and Slevin (1989)	Innovation, risk taking and pioneering
Lumpkin and Dess (1996)	Innovation, risk taking, pioneering, proactiveness and independence
Wiklund (1999)	Innovation, risk taking and pioneering
Lee and Peterson (2000)	Innovation, risk taking, pioneering, proactiveness and independence
Kreiser et al. (2002)	Innovation, risk taking and pioneering
Marino et al. (2002)	Innovation, risk taking and pioneering
Messeghem (2003)	Innovation, risk taking and pioneering
Tarabishy et al. (2005)	Innovation, risk taking and pioneering
Wiklund and Shepherd (2005)	Innovation, risk taking and pioneering
Chang et al. (2007)	Innovation, risk taking, pioneering, proactiveness and independence
Hughes and Morgan (2007)	Innovation, risk taking, pioneering, proactiveness and independence
Bulelwa (2008)	Innovation, risk taking, pioneering, proactiveness and independence
Callaghan (2009)	Innovation, risk taking, pioneering, proactiveness and independence

Source: Adopted from Hasan, Syedhamzeh, & Ali (2013, p.264).

*Innovativeness* as defined by Bolton and Lane (2012) is introduction of new products and services which inclining to creative element through research and development. Besides that, it also means the incentive from company by supporting any novel creativity, ideas and experimentation (Covin & Wales, 2012; Covin, Green, & Slevin, 2006).

*Risk taking* means willingness to take any risk action such as borrowing heavily, attempting into indefinite and engaging resources to firm in uncertain situations (Bolton & Lane, 2012).

The term *aggressive competitiveness* is always interchangeably used with term pioneering among entrepreneurial orientation literature. It can be define as intensity of a firm's effort to be ahead out of their competitor and rivals (Bolton & Lane, 2012).

*Proactiveness* characterizes how to be proactive, have a forward-thinking and identify the opportunity that provides the business benefit ahead from the rivals' actions by gather the information and anticipating future market demands (Bolton & Lane, 2012; Covin & Wales, 2012; Covin, Green, & Slevin, 2006).

*Autonomy* (also known as independency) is the ability of the leaders or teams take independent action in order to bring the business to benefit (Bolton & Lane, 2012) for instance by developing independent work creative thinking and implementing necessary structural changes (Chang, Lin, Chang, & Chen, 2007).

### **2.3 Barriers of Access to Finance**

Access to finance can be defined as an absence of price and non-price barrier to use any financial services (World Bank, 2011). Access essentially refers to the supply of services, whereas use is determined by demand as well as supply (Ganbold, 2008). Small business, however, struggle hard in accessing to external financial resources whether from formal or informal institution (Mason & Kwok, 2010; Hughes, 2009; Guijarro, Garcia, & Auken, 2009).

Based on numerous previous studies, access to enough financial resources would give many benefits to business, particularly, small business. Access to finance can be as one of the driving factors of an enabling economic environment (see Isern et al., 2009; Eriksson et al., 2009; Hussain et al., 2006). The World Bank and the International Finance Cooperation (IFC) rank economies according to their ease of doing business. In this framework, the ability for business to get credit is an important criterion (World Bank, 2011). The Global Entrepreneurship Monitor (GEM) highlights entrepreneurial finance, defined as the availability of financial resources for SMEs in the form of debt and equity, as one of the key factors for stimulating and supporting entrepreneurial activity (GEM Global Report, 2010).

The Investment Climate Surveys of the World Bank show that access to finance improves firm performance. It not only facilitates market entry, growth of companies and risk reduction (Beck, Thorsten, Demirguc-Kunt, & Asli, 2008), but also promotes innovation and entrepreneurial activity (Klapper, Laeven, & Rajan, 2006). Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities (Beck, Thorsten, Demirguc-Kunt, & Maksimovic, 2006). In other words, aggregate economic performance will be improved by increasing the access to capital (World Bank, 2011).

### **3. Conceptual and Proposition Development**

#### **3.1 Entrepreneurial Orientation (EO) and Business Performance**

Since EO model has been developed since last decades, many studies whether quantitative and qualitative had been done. Such study by Davis, Bell, Payne and Kreisler (2010) found that top managers with high of EO for instance willing to take risk, show high degree of ahead compared competitor and favour innovative activities have positive related to performance of the firm. Despite of this study, there are many prior studies which indicate EO and business performance is positive significantly related. It has been revealed that entrepreneurial firms, profitability, growth, firm performance and product innovation are closely related each other (example Moreno & Casillas, 2008; Avlonitis & Salavou, 2007).

Similarly, the study by Rauch and Frese (2009) resulted 24 per cent of the firm performance was explained by EO. They explore the level of relationship between EO and performance by using meta-analysis technique. They contend that from 14, 259 companies, the result depicts connection of EO with performance is moderately large ( $r = 0.242$ ).

Since the entrepreneurial orientation is divided into several dimensions, this study focus on five dimensions of entrepreneurial orientation as mentioned by Callaghan (2009) namely; innovation, risk taking, aggressive competitiveness, pioneering, and independence. Hence, the first proposition can be derived as:

*P<sub>1</sub>: The dimensions of entrepreneurial orientation are significantly related to the higher performance of small business.*

#### **3.2 Entrepreneurial Orientation (EO) and Barriers of Access to Finance**

Even lack of the previous literature studies about the relationship between EO and barriers of access to finance, Tang et al. (2008) contend that in order to achieved all strategic plans and goals in firm, they must have enough resources. These strategic plans and goals could come from the firm that behave entrepreneurially. Admittedly, the EO practices necessity ample capital or financial resources in the venture (Covin & Lumpkin, 2011, p .855).

Supported by Mukiri (2011), the firm that practises EO are more concentration and give efforts toward looking for chances from supplier to access the enough capital. As mentioned in previous part, these studies consider five dimensions of EO. One of that is risk taking. As confirmed by Haung, Wang, Chen, and Yien (2011), firm with high risk-taking is ready to take any risk including access to external financial capital. Thus, the second proposition is point out as follows:

*P<sub>2</sub>: There is a significant relationship between EO and barriers of access to finance for small business.*

### **3.3 Barriers of Access to Finance and Performance**

Access to finance is believed being an important factor not only to business development, but to economics environment as well (Isern et al., 2009; Hussain et al., 2006). Such study from International Finance Cooperation (IFC) found access to credit was the hardest issue to run out the business (World Bank, 2011). Prior study support that better access to finance is unable the firm to exploit and invest more opportunity compared to the firm with lacks of financial resources (Beck, Thorsten, Demirguc-Kunt, & Maksimovic, 2006). Even World Bank (2011) point out increased in accessing to financial resources would improve and enhance the aggregate economic performance.

In spite of vital role of access to enough financial resources in developing business and economics performance, the small firm struggle hard to access to finance. Small and medium business worldwide admitted that financing constraints are the second most-severe obstacle, compared to the fourth one cited by large firms (World Bank, 2011). In fact, small firms have almost twice the effect of financial obstacles on their performance compared to larger firms (Beck, 2007).

There some barriers that always constrained them to get financial facility from banking institution. The obstacles that are regularly faced by small business are no track records and high collateral requirements (Schans, 2013; Madichie & Nkamnebe 2010; Mason and Kwok, 2010). This kind of criteria is normally needed to be fulfill by them before banks process their loan application. Besides that, the other challenged faced by them in accessing finance are high administrative costs (Chaya & Suhb, 2008) and lack of experience within financial intermediaries (Rudjito, 2010). Thus, this study assumes easy access to finance could expand the performance. Consequently, third proposition is:

*P<sub>3</sub>: Easy access to finance can improve the performance of small business.*

### **3.4 Entrepreneurial Orientation (EO), Barriers of Access to Finance and Business Performance**

Even lack of prior studies introduced mediator effect in the relationship between EO and business performances, there are several studies had introduced access to finance as a mediator variable. For illustration, Zampetakis et al. (2011) indicate the relationships among entrepreneurial orientation, access to financial resources and broadcasted product performance. The result from survey data of Greek television enterprises confirmed that access to financial resources is fully mediates the relationship of entrepreneurial orientation and product performance.

Besides that, Fatoki (2012) believed that inaccessibility to debt finance is one of the primary causes of failure and weak performance of SMEs in South Africa. As a result, this study found there is a significant positive relationship between EO and access to debt finance and the performance of SMEs. However, access to debt finance is found partially mediated the relationship between EO and the performance of SMEs.

Recently, the study by Murtala Aminu & Mohd Shariff (2015) explore the mediating role of access to finance on the positive relationship between entrepreneurial orientation (EO), market orientation (MO), learning orientation (LO), technology orientation (TO) and the performance of SMEs in Nigeria. The findings from 552 SMEs in Nigeria were resulted SMEs' access to finance depends on the degree of MO, LO and TO of the enterprise, however, EO negatively influences firm performance.

As point out by Lumpkin & Dess (1996), EO involves any firm strategic action, linking to aspects of entrepreneurial such as practices, decision-making styles and methods. Therefore, EO is become vital factor of the way how a business is operated. More than that, firm practices EO also can open up opportunities for their company in accessing various financial supports. They also are believed to more focus on accessing more capital because of good relationships with the providers of debt capital (Fatoki, 2012).

Examples of EO dimensions are innovativeness and proactiveness. Businesses which practices proactive and innovative found have a better of accessing finance. This is because they are seen progressive in seeking perspective. Behave proactiveness is crucial in seeking networks and creating links with the many supplier of finance. Similarly, behave innovativeness engage with the process of commercialisation new ideas, experimentation and novelty which needs to be supported by huge of capital (Li, Zhao, Tan, & Liu, 2008, p.115). In fact, financial resource is one of the critical factors to the firm growth (see Isern et al., 2009). However, Stevenson and Jarillo (1990) reminded that is not about the ownership or how much they have the financial resources, but the accessibility to it is more important.

Thus, based on these arguments and past research findings, the entrepreneurial orientation dimensions are assumed significantly related to the easy access of financing and directly enhance the business performance. Hence, an effective firm with high of entrepreneurial orientation may be a good predictor of firm access to finance. Later, the fourth proposition can be drawn as:

*P<sub>4</sub>: The relationship of entrepreneurial orientation and small business performance is mediated by the barriers of access to finance.*

### **3.5 Entrepreneurial Orientation (EO), Size of firm and Business Performance**

There is a heated debated about the suitable variable to be a moderator arise in between relationship of EO and performance (Zahra & Garvis, 2000; Lumpkin & Dess, 1996; Zahra, & Covin, 1995). Such Wiklund and Shepherd (2005) verified internal variables for instance knowledge can be a mediator in EO studies, whereas, Tan and Tan (2005) have been included several environmental variables as mediator in EO studies.

There also several previous literatures had introduced size of firm as a moderator variable in their studies. However, their effect was inconclusive since some of the studies found size of firm have negative relationship and not significant as a mediator.

As proposed by prior literature, moderator relates to the size of the business itself. Covin and Slevin (1989) argued that smaller organizations are more flexible, allowing them to quickly change and take advantage of new opportunities appearing in the environment.



Sazali, Raduan & Suzana (2011), examine the moderating effect of size of multinationals (MNCs) company on relationship quality, mutual trust, and two distinct dimensions of degrees of technology transfer, degrees of tacit and explicit knowledge within joint venture companies. The results revealed that size of MNCs has significantly affected the relationship between characteristics (relationship quality and mutual trust) and degree of tacit knowledge; where the relationship was found stronger for medium/small MNCs than large MNCs. Nevertheless, size of MNCs did not moderate the relationship between relationship characteristics and degree of explicit knowledge.

Ghaith, Khaldoun and Anas (2014) examine the moderating effect of firm's size on the original relation between internet usage and traditional distribution channels. 904 screened and filtered questionnaires firms in Jordan resulted that internet has a partial effect on traditional distribution channels, the effect is limited to creating new direct online channel, and even this effect is weak, and got even weaker as the firms size got smaller.

There is reason to believe; therefore, that the effect of EO on performance is greater depends on size of organizations. Concludes from these, the fifth proposition could be said as:

*P<sub>5</sub>: The relationship of entrepreneurial orientation and small business performance is moderate by size of firm.*

From the five propositions formulated above, a conceptual framework can be illustrated as in Figure 1. This figure depicts the relationship between entrepreneurial orientation, access to financial resources and small business performance, also the mediator and moderator effect.

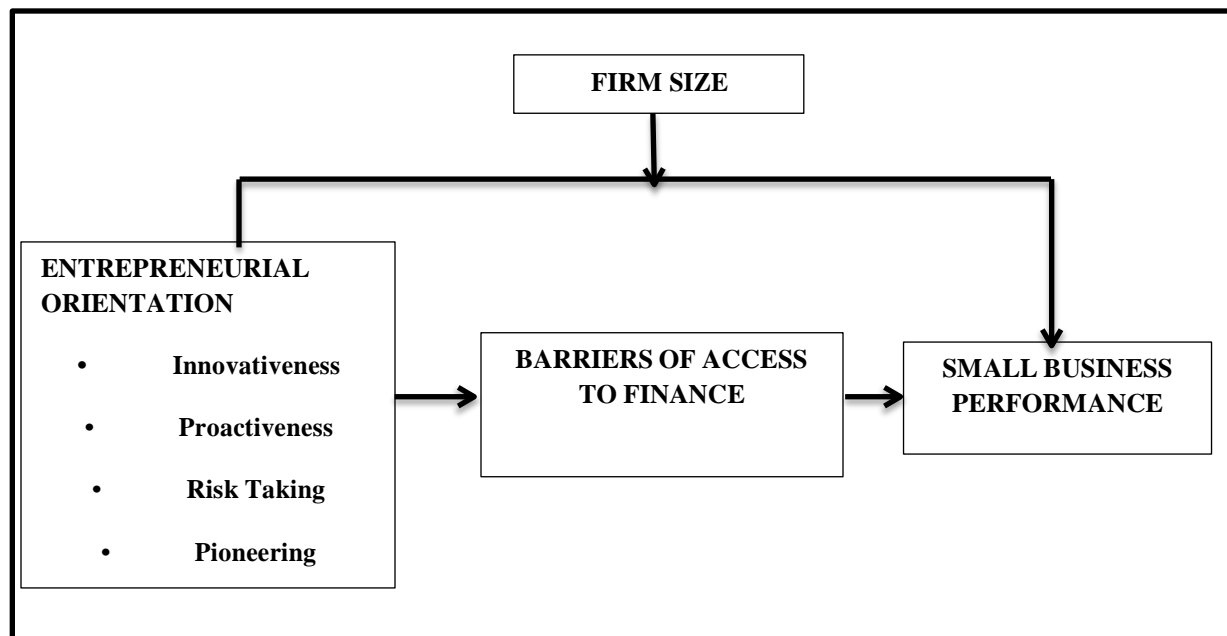


Figure 1: Proposed Conceptual Framework

## **4. Conclusion**

To wrap up, small business is recognizing to give vital contribution to economic development in term of higher of GDP, job opportunity, export performance, equal distribution of income, eradicates poverty, tax revenues, domestic savings, entrepreneurial development, income distribution, etc. Therefore, many support programs highlight on the development of entrepreneurial orientation since entrepreneurial orientation at the organization level is a behavioural construct that has been successfully measured and has been positively correlated in improving performance. Some prior studies, however, contend that the relationship between entrepreneurial orientation and firm performance may be more complex than a simple main effect. Thus, for conceptual proposed, this paper provides a conceptual framework for the direct links between EO and performance of small business. Not only that, to advance the previous studies, this paper introduces the mediator and moderator variable in the direct link of EO and small business performance. EO is expected to improve the ability to access of finance and then explained the development of small business performance. The conceptual model is founded in a synthesized understanding of these three main construct by supporting from numerous previous literature. A study of this nature is vitally-important to inform the stakeholder such as government, private bodies, NGOs, policy maker and small entrepreneurs on the important of entrepreneurial orientation and access to finance in the small business performance sector.

## **5. Limitation and Future Research**

Instead of glowing significance of this paper, it is only examines on several determination factor of performance on small business, whereas there are many other external and internal factor that should be taken into account by the future research for instance economic factors, competition and business networking (see Rosman and Mohd Rosli, 2011).

Despite of that, this paper needs to be tested by the empirical data to support the conceptual framework. This is because this paper is still under conceptual level which needs more strength proof through in-depth interviews and survey.

Moreover, in order to ensure clear understanding on this topic, the future study could extend this topic and issue on theoretically and empirically. Particularly, the future works can discuss on the mediator role of access to finance in the relationship between entrepreneurial orientation dimensions and performance of small business.

Last but not least, even this study is constrained to small business, the future researcher, however, could apply this framework on medium size or both small and medium enterprises. Furthermore, they are welcome to extend this study by conducting the comparison study among sector and size.

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