

Cultural Orientations, Entrepreneurial Competencies and SMEs Business Success: The Contingent Roles of Environmental Turbulence and Network Competence

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ABSTRACT

Entrepreneurial competencies are essential to the success of SMEs in the competitive and rapidly changing business environments. There is truly need for SMEs to acquire and improve their entrepreneurial competencies. The existing researches have revealed the importance of entrepreneurial competencies for SMEs business success. Also, there is a general consensus among scholars that entrepreneurial competencies are context specific. Thus, the culture orientations play a vital role in the development of entrepreneurial competencies. The purpose of this paper is to determine the relationship between entrepreneurial competencies and business success and also to highlight the impact of cultural orientations on the development of competencies of ethnic entrepreneurs in the context of Malaysian SMEs. Moreover, this paper also argues that environmental turbulence and network competence improve the relationship between the entrepreneurial competencies and SMEs business success. Hence, it is important to investigate that how SMEs can achieve competitive advantage by utilizing their entrepreneurial competencies and network competence in environmental turbulence of modern global era. Therefore, by drawing insights from the existing review of the literature, our purpose is to improve understanding of the relationship between entrepreneurial competencies and SMEs business success under the moderating effects of environmental turbulence and network competence. A model of competencies is also suggested to provide useful insights into ethnic entrepreneurial competencies in the context of Malaysian SMEs.

Keywords: Culture Orientations, Entrepreneurial Competencies, Network Competence, Environmental Turbulence, SMEs Business Success.

1. INTRODUCTION

Entrepreneurial competencies contribute a major role in the success of SMEs businesses. It is observed by researchers that now competency approaches have to be considered more than other approaches (Brophy & Kiely, 2002), to identify behaviors which are related to the superior firm's performances. The entrepreneurial competency approach can be used to describe the phenomenon that why some entrepreneurs fail while other succeed in similar situations (Ahmad, 2007). McClelland (1987) claimed that successful entrepreneurs are usually equipped with three

essential personal entrepreneurial competencies which include proactiveness, motivation for achievement and commitment to others. A recent study by (Mugion, 2013) has identified seven other important entrepreneurial competencies which constitute efficiency and quality; goal setting; calculated risk-taking; persuasion and networking; systematic planning and monitoring; information seeking; and self-confidence and freedom. On the other hand, some researchers have asserted that lack of SME owner's incompetence, lack of experience in managing businesses, and poor decision-making during crises lead towards the business failures (Griffin, 2012; Ropega, 2011). Hoffmann (1999) observed three different ways to define the competencies, (i) the standard of person's performance, result or output (ii) observable output or performance (iii) and knowledge, skills and abilities that represent the underlying attributes of a person. Several studies have adopted the third definition of competency (that refer to knowledge, skills and abilities) to understand the managerial competencies (Ahmad, 2007). Similarly, Boyatzis (1982) defined competency as underlying characteristics such as skill, motive, trait and knowledge of an individual. Baum et al. (2001) asserted that entrepreneurial competencies are the individual characteristics such as abilities, skills and knowledge needed to perform a specific job. Brownell (2008) defined entrepreneurial competencies as specific skills, positive attitude and attributes/abilities. On the other hand, some researchers have linked the entrepreneurial competencies with the individual behaviors as well. For instance, Woodruffe (1993) defined entrepreneurial competencies as a set of pattern of different individual behaviors to perform functions and tasks with competence. Likewise, Thompson et al. (1997) viewed entrepreneurial competencies as integrated sets of individual behaviors to accomplish a goal successfully. Similarly, Brophy & Kiely (2002) defined them as behaviors, attitude, knowledge and skills needed to effectively perform a role.

2. LITERATURE REVIEW

2.1 CULTURAL VALUES / CULTURAL ORIENTATIONS

Values create the most critical element that links all aspects of behaviors (Smith & Schwartz, 1997). For instance, values are believed to impact main issues such as corporate strategy (Guth & Tagiuri, 1965) and organizational structure (Hinings et al., 1996). Values have been defined in different ways by various authors. Schwartz & Bilsky (1990) described five features of values that are repeated in its definition that suggest that values are beliefs or concepts, desirable behaviours or end states, transcend specific situations, evaluation of events and behaviours or guide selection and are ordered according to their relative importance. Similarly, culture got more attention. Scholars have linked it with various issues such as strategy (Hennart & Larimo, 1998), ethics in the organization settings (Armstrong, 1996). Because of diversity of disciplines, culture can be defined in more than hundred ways (Kroeber & Kluckhohn, 1963) but there is no consensus on its definition (Tayeb, 1994). Hofstede developed cultural framework or model that constitutes four dimensions. These are power distance,

uncertainty avoidance, individualism and masculinity (time orientation was added afterward). Power distance is defined as the extent to which fewer powerful members of the society accept the inequality in power and consider it as a common feature. Uncertainty avoidance refers to the extent to which the people in the society become nervous by unstructured, unpredictable or unclear situations and the degree to which they try to avoid such situations by adopting strict behavioral codes. Individualism assumes that people give more importance to their own interests and the interests of their immediate family. Masculinity refers the extent to which the members of the society are competitive, assertive and strive for material success. Therefore, Hofstede's framework considered a straight ward and comprehensive way to dimensionalize the national culture (Smith, 1992).

2.1.1. CULTURE, ENTREPRENEURSHIP AND INDIVIDUAL BEHAVIOURS

A growing body of literature regarding the cultural impacts on entrepreneurship indicates that various factors underlying the behavior of individuals actually revolve around culture (Pearson & Chatterjee, 2001). Adopting a similar perspective, Hayton et al (2002) considered culture as an important variable to understand the activities of the entrepreneurs and suggested that entrepreneurship is the cultural bound. Correspondingly, Berger (1991) stated that modern entrepreneurship is a unique variant that is created and sustained by the culture, thus, the dynamics of culture impacting the entrepreneurship must be studied. Many other studies suggested that culture matters a lot in entrepreneurship like other factors (Mueller & Thomas, 2001; Shane, 1993). The study of McGrath et al (1992) proved that entrepreneurs having unique cultural background shared a set of "entrepreneurial values" that distinguished them from the non-entrepreneurs of the same country. Thus, it might be possible that the existence of entrepreneurial behaviors and universal values goes beyond the culture (Ahmad, 2007). Therefore, certain entrepreneurial behaviors are expected to be more specific to the culture than the others (Ahmad, 2007). Similarly, McGrath et al (1992) argued that some entrepreneurial characteristic, attributes and traits are appeared to be universal, but many others are culturally specific as well.

2.1.2. IMPORTANCE OF STUDY OF CULTURAL VALUES IN MALAYSIA

The study of cultural values is important for Malaysia. Because Malays were farmers and fishermen historically, whereas the immigrant Chinese and Indians were involved in tin mines and rubber plantation activities that have become the modern economic sectors. Malays were economic laggards (Lim, 2001). The Malaysian government launched new economic policy in 1970. The aim of this policy was to eradicate poverty among Malays and to restructure the society to diffuse correlation between ethnicity and occupation. By 1990, Malays had to secure 30% (which was 4.3% in 1970) of the corporate assets, as well as their share of employment in commercial activities. But when this policy was expired in 1990, the Malays were able to obtain 19% of the corporate wealth instead of 30% targeted in the policy (Kamal & Yusof, 1989). Most of the studies have used Hofstede's cultural dimensions to differentiate cultures at national levels. There are various reasons to select the Hofstede's framework. First, sufficient literature is

available that has evolved from the framework (Chandy & Williams, 1994). Second, Hofstede (1991) wrote a paper on Malaysian work-related values. Third, many other frameworks supported rather than providing an alternative to his framework (Smith & Bonds, 1999). The other motivation to use this framework is due to recommendations by other studies as well. For instance, Johnson & Lenartowicz (1999) proposed to repeat the Hofstede's outdated data because rapid economic transformation may change the cultural values rapidly. According to (Malaysia, 1991), the ethnic composition of Malaysian workforce has transformed over past 30 years. For instance, Bumiputeras (constituting Malays and other indigenous groups) made up 30.8% employment in the secondary sector (mining, manufacturing, utilities, transport and construction) while non-Bumiputeras made up 69.2% in 1970. Similarly, in the employment of territory sector (wholesale and retail trade, finance, government and other services), Bumiputeras were responsible for 37.9% while non-Bumiputeras were responsible for 62.1%. Thus, non-Bumiputeras were dominated by the employment of secondary and tertiary sectors in 1970. Then in 1990, the share of Bumiputeras in the employment of secondary and territory sectors increased up to 51.9% and 48.4% respectively. There was a real need to show more participation in commence by Bumiputeras. The follow-up research on Hofstede's cultural framework regarding Malaysian context is not satisfactory (Lim, 2001). Many studies in the literature applied Hofstede's findings in the speculative manner only (Abdullah & Gallagher, 1995; Schermerhorn & Bond, 1997). Whereas Rashid et al. (1997) interpreted his dimensions as profile of organizational culture but WestWood & Everett (1987) examined the suitability of Hofstede's methodology in the context of South East Asia instead on focusing on Malaysia specifically. On the other hand, Lim (2001) did an empirical study in the context of Malaysia on three ethnic groups (Malays, Chinese and Indians) and extended Hofstede's literature.

2.2 ENTREPRENEURIAL COMPETENCIES AND RESOURCE BASED VIEW

This study argues that entrepreneurial competencies are strong predictor of SMEs business success and supports the view of resource-based theory that the competitive advantages for firms can be generated from their unique set of resources (Saffu et al., 2008; Peteraf, 1993; Barney, 1991, 1986; Wernerfelt, 1984). A basic assumption of the RBV is that organizational competencies that are immobile and heterogeneous lead to sustainable competitive advantage. Barney (1991) argued that heterogeneous competencies can generate competitive advantage when they satisfy at least the two conditions: firstly; the competencies must be valuable that enable the firm to neutralize threats and exploit opportunities in the competitive environment and secondly, that only a few firms in a specific competitive environment possess these competencies. Drawing on the theoretical perspectives from the RBV of strategic management, this study argues that the entrepreneurial competencies are the vital resources of the organization. And due to the combination of specific competencies, the entrepreneurs can avail the opportunities from their external environments and then utilize such opportunities for their business success. Also, not all entrepreneurs possess all essential competencies. Thus, the success of various businesses can be distinguished on the basis of their entrepreneurial competencies as well.

Entrepreneurial competencies are related to the performance of the firm and its competitiveness (Man et al., 2002), growth and success of the business (Colombo & Grilli, 2005). Despite a lot of researches relating to entrepreneurial competencies (Man et al., 2002; Mitchelmore & Rowley, 2010), there are still gaps in the entrepreneur literature relating to the entrepreneurial competencies of entrepreneurs that belong to ethnic groups especially in the context of Malaysia (Ahmad, 2007). According to many studies, the entrepreneur's psychological and behavioral, demographic characteristics, managerial and technical skills are the most important determinants for the performance and success or failure of small and medium sized enterprises (Rasmussen, et al., 2011; Man et al., 2008; Man et al., 2002; Chandler & Hanks, 1994).

The entrepreneurial competencies are associated with birth, survival and venture's growth (Colombo & Grilli, 2005; Baum et al., 2001; Bird, 1995). There is evidence that an entrepreneur's skills lead to venture performance, expansion or growth (Lerner & Almor, 2002; Bird, 1995; Cooper et al., 1994). Further, research has shown that entrepreneurial skills of entrepreneurs also contribute towards profitability and growth of business (Chandler & Jansen, 1992). Mitchelmore, & Rowley (2010) states that in research on entrepreneurship and SME, the entrepreneur's demographic, behavioral characteristics and skills are often considered as the most critical factors to performance.

2.3 ENVIRONMENTAL TURBULENCE AND FIT APPROACH IN STRATEGIC CONTINGENCY THEORY

The present study also argues that entrepreneurial competencies (internal and intangible resources) alone do not lead the success of SMEs businesses. Because many external factors such as environment plays a vital role in the success of SMEs businesses as well. In the context of Malaysia, the external environment is highly turbulent. Thus, the success of SME businesses is contingent upon the environmental turbulence as well. Environmental turbulence represents the extent of unpredictable change in the environment of an organization (Goll & Rasheed, 2004). Environmental turbulence indicates a situation of uncertainty. Environmental uncertainty has been referred to an inability to predict rapid changes in the economic conditions (Dess & Beard, 1984). This concept has been used to give meanings of instability or unpredictability in markets (Aldrich, 1979) or in the field of technology (Moorman & Miner, 1997). Sohi (1996) gave the examples of the turbulent environment such as competitor's actions, customer's preferences and changes in technology. The moderating role of a dynamic environment in relation to other organizational variables and firm's performance is well documented in the literature. For instance, the previous studies such as Gilley & Rasheed (2000) provided evidence in their study of the moderating role of the dynamic environment in relationship between outsourcing and firm's performance. Also many other studies revealed the moderating role of external environment, such as; Antonicic & Hisrich (2001) has used the external environment as a moderator to reveal its impact on the relationship between level of entrepreneurship and organizational performance. Similarly, Ahmad (2007) used perceived external environment as a

moderator between entrepreneurial competencies and business success. Also many other studies also used external environment as a moderator on the relationship between ownership and performance (Li & Simerly, 1998); on the relationship between entrepreneur leadership behavior and new venture performance (Ensley et al, 2006); on the relationship between entrepreneur orientation and firm performance (Lumpkin & Dess, 2001); on the relationship between exploratory innovation, exploitative innovation and performance (Jansen et al., 2006). Likewise, the environmental turbulence is widely used as an exogenous variable with its moderating effect in many other previous and recent studies as well (Chi & Sun, 2013; Wang & Fang, 2012; Sundqvist et al., 2012; Zhang & Duan, 2010; Ahmad, 2007; Goll & Rasheed, 2004; Cadogan et al., 2001). However, very few studies (Cadogan et al., 2002; Jaworski & Kohli, 1993) did not consider and support the moderating impact of environmental turbulence. Thus, there is a need to investigate further regarding the moderating role of environmental turbulence (Chi & Sun, 2013).

This study supports strategic contingency theory in considering the moderating impact of environmental turbulence. The contingency theory is popular because it is based on the assumption that there is no single best way to organize and no single way of organizing is effective under all situations (Galbraith, 1973). In the field of strategic management, the concept is based on the assumption that the organizational resources much match or fit with the external environment context. However, it is also believed that no such universal strategies exist that are optimal for all businesses, regardless of positioning of their sources with the environmental context (Ginsberg & Venkatraman, 1985). The core concept of fitness in the contingency theory suggests that a proper alignment among external and internal organizational factors will positively impact on organizational performance and its success (Linton, 2014). Wiklund & Shepherd (2005) stated that the basic idea of contingency theory in the field of entrepreneurship literature is that the actions of entrepreneurs should be aligned with the context for outstanding outcomes. "Contingency fit" represents a simple concept of matching, aligning or consistency of the organizational components with its context that lead to organizational performance (Linton, 2014). Contingency theory is considered as an important strand in the entrepreneurship research and has a long ongoing tradition of using this theory in this field (Patel & Conklin, 2012; Chowdhury, 2011; Rauch et al., 2009; Short et al., 2008; Wiklund & Shepherd, 2005; Robinson & McDougall, 2001; Zahra & Covin, 1995; Covin & Slevin, 1989). Thus, based on fit approach of strategic contingency theory, this study argues that the entrepreneurial competencies should match with the external environment of SMEs businesses to face threats and to avail possible opportunities. In other words, Malaysian entrepreneurs should be competent enough to face the rapid changing business environments and to maintain the SMEs business success in highly turbulent environment as well.

2.4. NETWORK COMPETENCE AND RESOURCE DEPENDENCE THEORY (RDT)

The network competence is another factor that can improve the relationship between entrepreneurial competencies and business success in the context of Malaysian SMEs. Network competence represents the firm's ability to develop and manage relations with their suppliers, customers, and other organizations, and to deal effectively with the interactions among these relations (Ritter et al. 2002; Ritter, 1999). The network competence can be described on the basis of Resource Dependence Theory (RDT). The origin of resource dependence theory is in social exchange theory. RDT focuses on the needs of firm's resources (Chiu, 2008). Thus, the firms seek to build relationships with other firms to gain to access the needed resources and assets (Salancik & Pfeffer, 1978; Kogut, 1988; Nohria & Garcia-Pont, 1991). Traditionally, the firms more depend on their vertical network members but now increasingly establish relationships with their horizontal actors to acquire resources (Chiu, 2008). Thus, RDT is concerned with firm's requirements to gain resources from other actors in its environment and states how scarcities of firm's resources force it to introduce new innovations that utilize alternative resources (Sherer & Lee, 2002; Salancik & Pfeffer, 1978). The scholars generally integrate RDT with network or networking theory (Gulati, 1995), which is also based on many common assumptions regarding dependence but more emphasizes on the socially embedded context of organizations (Hillman et al., 2009). Others have integrated RDT with organizational learning and game theory to understand the power of partners (Saxton, 1997), and with network theory or transaction cost predict the choice of partners (Elg, 2000).

The firms cannot be successful through their individual efforts alone because its performance largely depends on the activities, performances and quality of relationships with other counterparts as well (Wilkinson & Young, 2002). Such relationships with external parties involve both competitive and cooperative elements. Simultaneously, the firms expand their resources through cooperation and also they compete to get the means of such resources. The firms compete to establish cooperative relationships with their counterparts such as suppliers and customers that help them to create competitive advantages by creating value for the consumers (Wilkinson & Young, 2002).

2.5. THE CONCEPT OF BUSINESS SUCCESS IN SMES

The aim of every business is to be successful and success is defined in various different ways. But in order to get success the entrepreneurs have to understand the factors that contribute to firm's success. The relative success criteria perceived by the entrepreneurs enable them to make and implement their right strategies to gain the business goals of success. Murphy et al., (1996) insisted on accurate measurement of performance and success to ensure the accuracy in identifying the critical success factors of an SME.

2.5.1. FINANCIAL AND NON-FINANCIAL INDICATORS FOR BUSINESS SUCCESS

The literature showed lack of agreement over what constitutes the measure of success. Some researchers focused on the use of financial indicators while others considered non-

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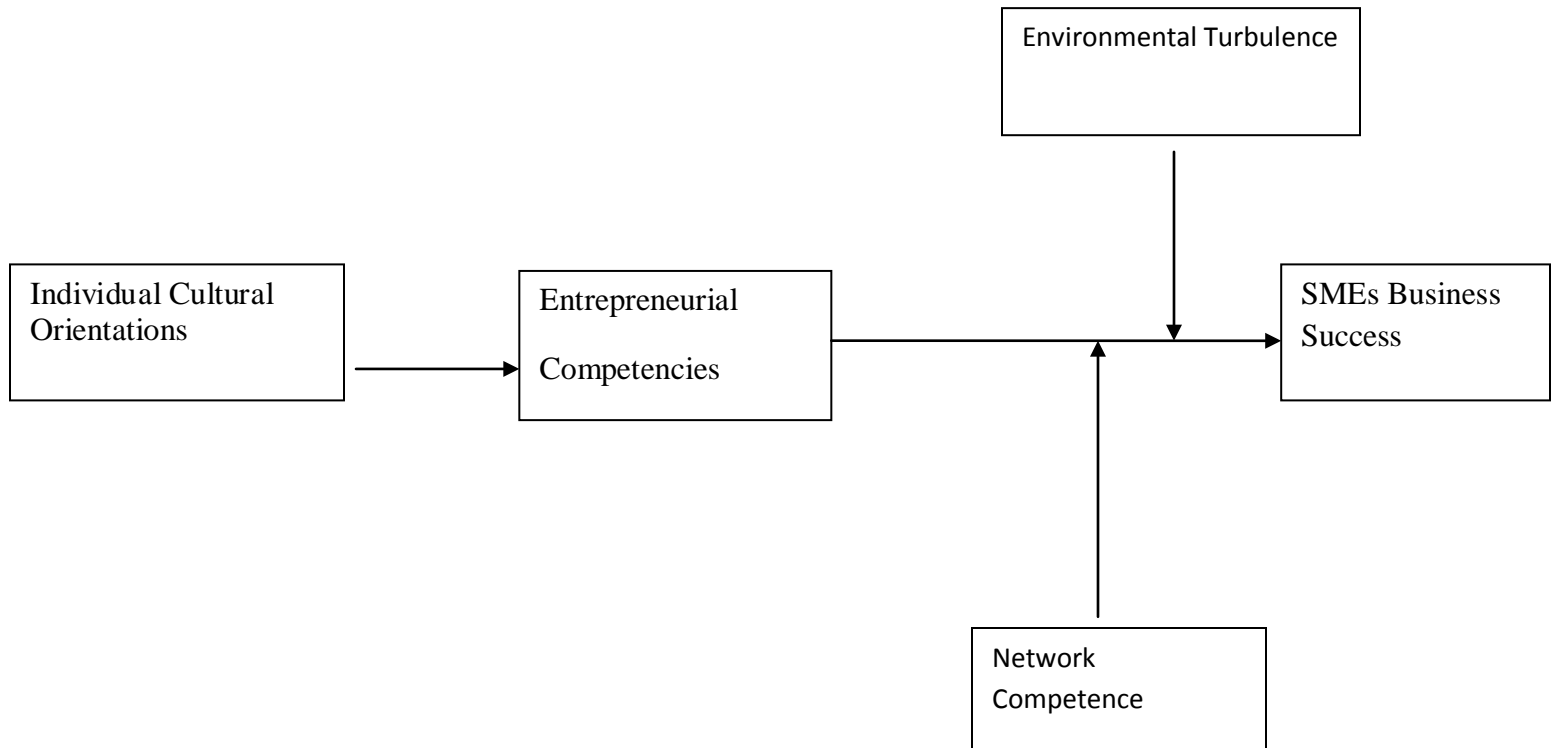
financial indicators of success. The former asserted on traditional financial measures of performance such as profitability, return on investment, sales turnover to predict the success and failure of a firm (Bruderl & Preisendorfer, 1998). The researchers who prefer financial measures of success usually argued that for the success of the organizations, it is vital to generate income and profits, and demonstrate some level of growth which is indicated by their sales and income (Perren, 2000). Some researchers also argued survival is aimed of many small businesses as well rather than that of growth, but the researchers of this group asserted that although growth is not considered important but survival of business also requires financial strength. In contrast, the latter group emphasized more on the importance of non-financial measures of success (Hoque, 2004; O'Regan & Ghobadian, 2004; Frese et al., 2002). Similarly, Jennings & Beaver (1997) justified the contribution of non-financial measures and stated that financial achievements are not much significant as the personal quality, responsibility is considered as principal criteria for success. Literature also shows criticism by many other researchers regarding the measures of firm's success. For instance, Parasuraman et al. (1996) realized the adoption of limited view of success, where it is measured by the "hard" measures of the performance and that such studies ignored the "soft" measures of the firm's performance that also reflect the internal career. Wiklund (1999) suggested that financial and non-financial performance complement each other and indicate the actual performance of the business. Thus, it is not sufficient to focus only on financial performance while neglecting the other measures that indicate the business success as well (Buttner & Moore, 1997). Murphy et al. (1996) argued that both the financial and non-financial dimensions of organizational performance are needed to emphasize in the future studies to capture total organizational performance.

3. PROPOSED THEORETICAL FRAMEWORK

In the proposed theoretical framework, the entrepreneurial competencies are treated as the independent variable and business success is the dependent variable which will be self-reported. In addition to the main dependent and independent variables, the framework also takes into account the moderating role of the environmental turbulence. This is because the research suggested that the entrepreneurs' perceptions and ways to deal with the environment challenges impact the business performance (Shane & Kolvereid, 1995; Chandler & Hanks, 1994; Tsai et al., 1991). The moderating impact of network competence is also considered in this framework. Because many researchers such as Ziggers & Henseler (2009) and Dyer & Singh (1998) argued that the firms' abilities to develop networks are a potential source of superior performance and sustainable competitive advantage. Thus, this study also argues that network competence will influence the success of businesses and will improve the relationship between the independent and dependent variables in the framework of this study.

Consistent with the arguments of Singelis & Brown (1995), the present study will examine the impact of cultural orientations on the entrepreneurial behaviors that shape their competencies. This cultural variable will be tested for its direct links to entrepreneurial competencies. The proposed framework is depicted in figure 1.

Figure 1 . Proposed Theoretical Framework.



Source: Ahmad et al, 2009; Ahmad, 2007.

4. DISCUSSION

Validation of the competency approach in business success for SMEs has been addressed in the paper. A validated model specifically in context of Malaysian SMEs will provide better understanding regarding the importance of competencies for SMEs business success and will provide significant implications on success issues of SMEs by providing insights into the development of effective performance management. The empirical research has revealed that despite having insufficient resources, the SMEs can still survive and succeed in this intense competitive and rapidly changing business environment. Ahmad (2007) has identified specific entrepreneurial competencies in the context of Malaysian SMEs. According to her, Malaysian entrepreneurs' competencies are context specific which constitute the conceptual competency;

personal competency; strategic competency; ethical; familism; and learning competency. These specific competencies may not be applicable to other cultures. Therefore, an empirical study is strongly suggested in future. Thus, the empirical testing of the suggested model will determine the impact of these context-specific competencies on the success of Malaysian SMEs by considering cultural orientations as an antecedent for entrepreneurial competencies of Malaysian entrepreneurs and also by taking into consideration the moderating roles of environmental turbulence and network competence in the relationship between entrepreneurial competencies and Malaysian SMEs business success. Malaysian SMEs need to improve their network competence in the turbulent environment of their surroundings in order to face and avail unexpected threats and opportunities respectively. This paper provides evidence that entrepreneurial competencies of Malaysian entrepreneurs are pivotal for the survival, success and growth of Malaysian SMEs. We argue that only more productive SME sector of Malaysia equipped with entrepreneurial competencies can indeed boost nations' economy and will be helpful in attaining the vision 2020 of achieving the status of an advanced and high-income nation. Only productive and successful SMEs contribute more towards the country's GDP, exports, and employment. Thus, there is truly need to identify and then equip with essential entrepreneurial competencies for the success of Malaysian SMEs. We argue that by improving the network competence, SMEs in Malaysia can become more successful in today's rapidly changing business environment. Therefore, the proposed research framework posits that environmental turbulence and network competence moderate the competency-success relationship. We expect that investigating the role of network competence and environmental turbulence is a major step in refining the relationship of competency-success.

5. CONCLUSION

This paper has revealed the importance of entrepreneur competencies for the success of SMEs businesses both in Western and Eastern contexts. Moreover, it is also evident from previous studies that cultural orientations play a vital role in the development of entrepreneurial competencies. Thus, it would be interesting to investigate the impact of different cultures of ethnic entrepreneurs towards their business approaches in the context of Malaysia, where Malays, Indians and Chinese are the major ethnic entrepreneurs whose competencies might differ from each other due to their intra-cultural orientations. Therefore, this paper has mentioned the construct of cultural orientations in the proposed model to investigate their effects on the development of entrepreneurial competencies. The existing literature has also revealed the important contribution of the business environment as a moderator to improve the relationships between entrepreneurial competencies and SMEs business success in different contexts. However, high environmental turbulence is assumed around the Malaysian SMEs and it is also expected that high level of SMEs' network competence will contribute more towards the business success in the context of Malaysian SMEs. Thus, the empirical testing of the proposed model will provide useful insights regarding the importance of environmental turbulence and network competence as the moderators to facilitate the relationships between entrepreneurial competencies and businesses success in the context of Malaysian SMEs.

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