

Strengthen SME Performance through Learning Orientation and Strategic Improvisation

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Keywords: SME, performance, learning orientation, strategic improvisation.

Abstract: SMEs become significant drivers of growth as Malaysia targets to become a developed and knowledgebased country. Unquestionable, SME contribution to gross domestic product, employment and export and has been recognized to contribute significantly to the economic performance in Malaysia. Thus, the purpose of this research is to study the relationship between learning orientation, strategic improvisation and SME performance. Quantitative survey method was used and data were collected from the Owner/managers who were randomly selected from a sampling frame of registered SMEs. A total of 368 usable responses were received. Partial Least Square (PLS) modelling was used to estimate the hypothesized research model. The result indicates that learning orientation and strategic improvisation has significant influence on SME performance. This study revealed SME need to enhance their learning orientation and prepared for strategic improvisation to compete with dynamic changing business environment due to limited resources.

1 INTRODUCTION

Malaysia's aspirations of Vision 2020 in becoming a high income nation is a challenging task, and a great approach is needed to speed up the growth of the SMEs. Since SMEs create employment opportunities and effectively allocate and distribute resources by assembling and employing human and material resources locally, the approach is to increase the contribution of the SMEs to the economy. However, according to Khalique et al., (2011) many SMEs in Malaysia could not stay in the market with competitive enterprises. Although SMEs constitute about 95 percent of the average 40,000 new companies that have registered with the Companies Commission of Malaysia per year, more than 50 percent of the SMEs collapsed within their first five years of operation (Reiss, 2007; Abdullah, Hamali, Deen, Saban, & Abdurahman, 2009; Ahmad & Seet, 2009). As claimed by Ndubisi and Saleh (2006) and Yunoh and Ali (2015) problems of SMEs are low level of technological capabilities, limited skilled human capital resources, low level of technology, internal sourcing of funds and ability to produce quality products. Tahir, Mohamad and Hassan (2011), there is a need to focus on SME performance by investigating the many other possible factors that may influence it. Thus, this study aims to determine

the effects of learning orientation and strategic improvisation in strengthen SME performance.

2 LITERATURE REVIEW

2.1 Learning orientation and SME performance

Learning orientation is recognized as the receiving end of the process of learning in an organization and act as antecedent to performance (Rhee, Park & Lee, 2010; Calantone, Cavusgil & Zhao, 2002; Hult, Hurley & Knight, 2004). Learning orientation can enhance firm performance in different ways, through learning about customers and competitors, which leads to high customer satisfaction and customer loyalty (Kohli & Jaworski, 1990). Learning allows companies to choose target markets and enter new markets, thus increasing performance (McCann, 1991; Zahra et al. 2000). Previous studies revealed that learning orientation has a significant impact on SMEs' performance (Real et al., 2012; Wang, 2008, Amin 2015) however Long (2013) Hatch (1998) and SantoVijade et al (2005) did not find any association between LO with firm performance. On the other hand, there is still lack of study regard of learning orientation on Malaysia SME performance. Due to this limitation, below the hypothesis is posit

H1: There is a significant influence between learning orientation and SME performance

2.2 Strategic Improvisation and SME performance

McKnight and Bontis (2002), claimed improvisation is the ability to spontaneously recombine knowledge, processes and structure in real time, resulting in creative problem solving that is grounded in the realities of the moment. Meanwhile, Crossan and Sorrenti, (2002), Moorman and Miner (1998) said improvisation as the spontaneous action is resulted not through a deliberate process of thought and evaluation but on the spur of moment based on the intuition guiding the way. As stressed by Cunha, Cunha and Kamoche (1999), for the past 30 years, researchers have been interested by the perception of applying to organizations the metaphor of jazz combos because they embrace creative uncertainty within structured rules.

Strategic improvisation acts as the best strategy to cope with flexibility and provide the organization with capabilities to adapt to changing environmental demands rapidly and effortlessly. Improvisation is also seen as a new paradigm for strategic choice (Eisenhardt, 1997), an important construct for a firm’s strategic performance (Moorman & Miner, 1998). Hmieleski and Corbett (2006) strongest relationship was found between entrepreneurial intentions and improvisation. Hmieleski and Corbett (2008) found that factors, like environmental turbulence and real-time information served as moderating factors in the relationship between improvisation and product effectiveness. Vera and Crossan (2005) found improvisation has a positive effect on team innovation when combined with team and contextual moderating factors. Ribeiro, Coelho and Gomes (2011) found that human resources has a direct effect on improvisation behaviour. Daly, Grove, Dorsch and Fisk (2009) the study shows that participants both enjoyed the improvisation training and found it to be very valuable as preparation for their roles in the airline. Moreover, Arshad and Hughes (2009) and Arshad (2011), Abu Bakar, Mahmood & Nik Ismail, (2015) who investigated the direct impact of improvisation on firm performance found there is a found organizational improvisation positively affects SME performance. Nevertheless, there is still lack of study regard to strategic improvisation with Malaysia SME performance. Hence, the hypothesized is developed.

H2: There is a significant influence between strategic improvisation and SME performance.

3 METHODS

The survey site of this study is in east region Malaysia, Kelantan, Terengganu, and Pahang. The rationale for this selection is due to their homogeneity, in terms of the areas and GDP performance. Past studies on SMEs have also focused on specific regions within Malaysia such as Awang, Khalid, Subari and Asghar (2010) studied Bumiputera owned SMEs in the Northern region of Peninsular Malaysia, Mohd, Yahya, and Kamaruddin (2012) focused on SME owner/managers in the west coast, and Hairuddin, Noor and Ab Malik (2012) who compared the SME establishments between the states in the Eastern region and the west coast. A self-administrated survey was used to obtain the primary data through a set of questionnaire. The questionnaire was divided into two parts. Part A described the predictors that SME performance. Part B focused on the respondent demographics. Each dimension contained multi-items measured by a five point Likert scale. Owner/managers were targeted because they are the key informants of the business and usually they are involved in the overall running of the firms. 368 responses were returned and found useable for the final analysis using the structural equation model partial least square (SEMPLS 3).

4 FINDINGS

4.1 Validity Assessment

The validity of the measurement model was assessed by testing the convergent validity and discriminant validity. The convergent validity exists when the indicators of one construct converge or share a higher proportion of variance. Hair, Ringle and Sarstedt (2011) claimed the quality of the measurement model was assessed by examining convergent validity includes factor loading, average variance extracted (AVE) and composite reliability (CR).

Table 1: Result Convergent Validity

Constructs	Items	Loadings	AVE	CR
Firm Performance	FP1	0.684	0.609	0.925
	FP2	0.719		
	FP3	0.789		
	FP4	0.767		
	FP5	0.806		
	FP6	0.799		
	FP7	0.809		
	FP8	0.854		

Table 1. Cont.

Learning orientation	LO1	0.775	0.673	0.935
	LO101	0.850		
	LO111	0.797		
	LO2	0.843		
	LO3	0.811		
	LO8	0.808		
Strategic Improvisation	LO9	0.857		
	SI1	0.812	0.650	0.918
	SI2	0.796		
	SI3	0.794		
	SI4	0.800		
	SI5	0.825		
	SI6	0.811		

AVE: Average Variance extracted; CR: Composite Reliability

Above table indicates that, indicator loadings for all items exceeded the recommended value of 0.5 (Hair, Black, Babin & Anderson, 2009). Average variance extracted (AVE) were in the range of 0.609 and 0.673, meanwhile composite reliability (CR) which is above the recommended value of 0.5, and ranged from 0.918 to 0.935 which exceeded the recommended value of 0.7 (Hair et al., 2009).

4.2 Discriminant validity

The discriminant validity of the measurement items was tested through the criteria suggested by Fornell and Larcker (1981) and Heterotrait Monotrait Ratio (HTMT) (Henseler, Ringle & Sarstedt, 2015). Fornell and Larcker (1981) have suggested examining whether the square root of the average variance extracted (AVE) for each construct is greater than the correlation between the constructs. Meanwhile, using the HTMT as a criterion involves comparing it to a predefined threshold. If the value of the HTMT is higher than this threshold, one can conclude that there is a lack of discriminant validity. Clark and Watson, (1995), Kline (2011), suggest a threshold of 0.85, whereas Gold, Malhotra and Segars, (2011) propose a value of 0.90.

Table 2: Fornell and Larcker

	FP	LO	SI
Firm Performance (FP)	0.780		
Learning orientation (LO)	0.698	0.821	
Strategic Improvisation(SI)	0.704	0.800	0.806

Table 3: Heterotrait-Monotrait Ratio

	FP	LO	SI
Firm Performance (FP)			
Learning orientation (LO)	0.752		
Strategic Improvisation(SI)	0.772	0.881	

Table 2 shows the correlation matrix in Fornell and Larcker, where the diagonal figures represent the square root of the AVE extracted of the constructs. The test results indicate that there is adequate discriminant validity since the diagonal elements are significantly greater than the off-diagonal elements in the corresponding rows and columns. Then, for HTMT (see table 3) the result shown the values are less than 0.90 indicates that discriminant validity is fulfilled the threshold.

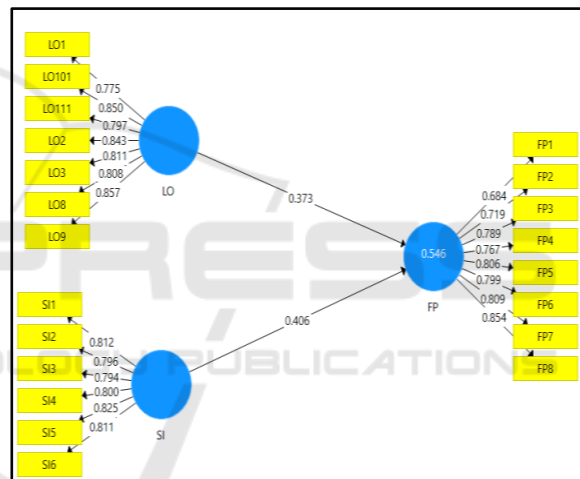


Figure 1: Structural Model

4.3 Hypotheses Testing

Path analysis was performed to evaluate the structural model. Based on Hair et al; (2011), the primary evaluation criteria for structural model are R² values and the level of significance of the path coefficients.

Table 4: Hypothesis Result

Relationship	Std. Error	t value	Result
LO-SME performance	0.050	7.437	Supported
SI -SME performance	0.049	8.279	Supported

LO: Learning Orientation, SI: Strategic Improvisation.
Note: if the t-value is greater than 1.645(*p<0.05)

Based on Figure 1, the R^2 was found 0.546, indicating that learning orientation management and strategic improvisation can account for 54.6% percent of the variance in SME performance, which represent a substantial range. Based on Cohen (1988) for a good model, the value of R^2 of endogenous latent variable should be more than 0.26.

The results indicate that the learning orientation and strategic improvisation have a significant relationship with SME performance. The result found that LO ($\beta = 0.050$, t values = 7.437) and SI ($\beta = 0.049$, t -value = 8.279) (Table 4). Therefore, H1 and H2 are supported.

5 CONCLUSIONS

Results from this study determined that significant relationship between orientation learning orientation and strategic improvisation with performance of SMEs. Thus it indicates that learning orientation and strategic improvisation as important factors for successful SMEs performance. Studies have shown that high rates of economic growth that contribute to economic and social development and poverty reduction are closely linked with the SME development. Consequently the future progress of Malaysia seems to depend greatly on the development of SMEs and they are vital for accomplishing vision 2020 where Malaysia hopes to be fully developed and become an industrialized nation by the year 2020 by capitalizing on the country's strengths and overcoming its weaknesses through the SMEs (Omar et al., 2009). Therefore the encourage the learning orientation (commitment to learn, share vision, open mindedness) and strategic improvisational actions that can create competitive advantage, encourage and respond any changes to cope in competitive business environment to ensure the survival of the SME company.

This study is a survey based study (questionnaires). One limitation of survey study is the problem of internal validity (Burney, Henle, & Widener, 2009). Thus, a mixed methods study, both quantitative and qualitative study will overcome this limitation. The respondents only comes from owner as informant, the next study the participation from all level of employees may provide more accurate results for this study. The researcher also can focus comparison of across different industries and geographic regions. This would have made the findings of this study more generalizable.

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