

## The Unique Situation Explaining the Entrepreneurial Orientation of Malay SMEs in Malaysia

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### Abstract

*The present study attempted to disclose the entrepreneurial behaviors of Malay business owners by specifically examined hostility environment as a moderator to the self-efficacy – entrepreneurial orientation relationship. In doing so, samples were extracted from the sampling frame of Majlis Amanah Rakyat Malaysia (MARA) which comprised Malays (the whole of Malaysia) who own small scale businesses in manufacturing. 26 percent of 620 questionnaires distributed came back to the researchers for analysis. The data was analyzed by using hierarchical regression analysis to test the moderating role of hostility. Even though hostility did not moderate the relationship, it was found to be useful as either an antecedent or mediator role. The findings also indicated the important role of self-efficacy in improving the entrepreneurial orientation of Malays the whole of Malaysia. While past researches indicated the significant role of business environment as a moderator, the present study uncovered otherwise, indicating the unique scenario of business establishments in Malaysia. This explains why the entrepreneurial orientation of Malays does not change despite much incentives provided to them by Malaysian government. Their confidence in operating business (self-efficacy) is the actual reason for them to improve. The findings serve a reminder for the government to assist Malay business owners to improve. The training module should include provisions that can stimulate the self-efficacy of the Malays.*

**Keywords:** Hostility, Malaysian Muslim, Entrepreneurial Orientation, Self-Efficacy

### Introduction

Malaysian SMEs, despite the increase in numbers, their contribution to the country's economy is at a low rate of increase (Mustapha, 2019). This indicates that the failure rate of SMEs in Malaysia is in the risk phase compared to their larger counterparts. The most worrisome being the failure involves Malay small businesses. As a result, they have been labelled as indolent by majority Malaysians (Alatas, 2006). Additionally, they are usually accused of being less performing compared to the Chinese. Assuming that this view is not totally correct, it is the task of the paper to examine the confidence of Malay business owners in terms of their self-efficacy. This is because self-efficacy is claimed to be one of the important variables that influences behavior (Bandura, 1989). Moreover, according to Rauch and Frese (2007), an entrepreneur's behavior is influenced by their certain motivational forces. Coincidentally, recently, the most common motivational factor studied of entrepreneurs is self-efficacy.

This characteristic is about the entrepreneurs' belief in their ability to perform business related tasks. It is obvious from past researches (Erum et al., 2020; Ilyas et al., 2020) that self-efficacy is an important factor that can enhance positive behaviors. However, Bandura (1989) claimed that only certain behaviors are relevant due to certain circumstances. This means that in the context of entrepreneurs, self-efficacy will influence entrepreneurial behaviors only when they are in less favorable business environment. Due to this, the literature revealed two different views regarding the influence of environment in the context of the relationship between self-efficacy and entrepreneurial orientations. The first view was proposed by Bandura (1989).

The second view or a second group of researchers (Shane et al., 2003; Rauch & Frese, 2007; Green et al., 2008) believed that business owners with high motivation (high self-efficacy) will be more entrepreneurial only in a supportive environment.

Therefore, this paper attempts to examine if Bandura's (1989) theory of self-efficacy is true. Additionally, the findings of some studies (Gatner, 1988; Baron, 2004; Kumar, 2007; Chattopadhyay & Ghosh, 2008; Wei et al., 2020; Covin et al.; 2020) revealed an integration of personological characteristics (e.g. self-efficacy) and business environment (e.g. hostility) in order to understand entrepreneurial orientation and success. Taking this into consideration, the present study integrated the personological variable of self-efficacy and hostility environment to help explain entrepreneurial orientation of Malay business owners. Specifically, the role of hostility environment acts as moderator to self-efficacy in determining the entrepreneurial orientation of entrepreneurs.

## **Literature Review**

### *Entrepreneurial orientation*

Entrepreneurial orientation (EO) as described by Lumpkin and Dess (1996) refers to the process, practices, and decision-making activities that lead to a new entry. This is the strategic orientation of a firm they said, and it reflects the entrepreneurial styles of decision making, methods and practices. Other researchers (Rauch & Frese, 2007; Okhomina, 2010) found that being entrepreneurial as being more innovative, proactive and risk taking than non-entrepreneurs. The concept of entrepreneurial orientation (or EO) has been operationalized in numerous ways in the entrepreneurship literature. According to a review of existing studies by Wiklund (1998), he described entrepreneurial orientation in general as: "... points to a number of actions that can be regarded as entrepreneurial, namely the development of new products and markets; proactive behavior; risk-taking; the start-up of a new organization; and the growth of an existing organization".

The above definition has provided some clues about entrepreneurial orientation. The innovative, proactive and risk-taking actions by the entrepreneurs reflect their approaches and directions. If those actions involve exploring new businesses by seizing opportunities with bravery, their actions reflect a risk-taking orientation; hence, they are called risk taking entrepreneur. In the entrepreneurial orientation research, there are numerous researches conducted to identify the dimensions of the EO. Among the popular dimensions adopted by many researchers (Zahra & Garvis, 2000; Lumpkin & Dess, 2001, Lumpkin & Erdorgan, 2004; Weaver et al., 2001; Awang et al., 2009; Awang et al., 2010) include proactiveness, innovativeness, risk taking, competitiveness and autonomy. However, those researchers ended up with different views as to which dimension(s) is more relevant and whether entrepreneurial orientation is unidimensional. Specifically, proactiveness; risk taking; and innovativeness are accepted by the above-mentioned scholars as important and relevant dimensions. Thus, the present study employed those three dimensions to measure the entrepreneurial orientation of Malay business owners. In most of the mentioned studies of entrepreneurial orientation, EO has been treated as unidimensional.

### *Self-efficacy*

Self-efficacy (SE) has recently been one of the common variables studied by researchers in the area of entrepreneurship and SMEs, as it relates to business owners' ability to operate business. Previously, it was the most studied variable, particularly in the field of psychology after a seminal paper by Bandura was published in 1977. It is not an exaggeration to say that SE plays a major role in how goals, tasks and challenges in business are approached. This was because Bandura (a prominent scholar) claimed that SE could have an impact on everything from psychological state to motivation and behaviour. Self-efficacy has been described as one's confidence about his or her ability to mobilize motivation, cognitive resources, and courses of actions for the successful execution of a task within a given context (Bandura, 1989; Staj-kovic & Luthans, 1998). Additionally, personal agency beliefs; personal efficacy; capacity beliefs; and perceived competence are concepts almost similar to self-efficacy as identified by Mitchell and Daniels (2003). Those have been used by other researchers.

### *Business environment (hostility)*

Business environment has been defined by Athey (1982) as the aggregate uncontrollable factors able to influence the effectiveness of a system. The impact of business environment on SMEs cannot easily be studied as its impact takes a long time to be revealed before an analysis can be conducted. As a result, Green et al. (2008) proposed that researchers measure the business environment by using perception of business owners regarding the environment. In the respect, Green et al. (2009) defined business environment operationally as the environmental forces that a firm carries out in its primary business operation. Those forces have been perceived by business owners or managers as being munificent/hostility and dynamic. Munificent environment is described as benign (environment with low hostility).

Thus, the present study employed the operational definition of business environment suggested by Green et al. (2008). Having this scope of business environment, the study believes that business environment can be an important variable to be applied by any study of entrepreneurship and SMEs. In other words, how can someone study the behavior of a firm effectively when the effects of business environment are ignored.

As suggested by Hornsby et al. (1993), Bandura (1987), and Stajkovic and Luthans (2003), behavior functions when there is interaction between a person and the environment. Hence, this study is validated as it is conducted to understand the effect of the environment on entrepreneurial orientation.

### ***The relationships between self-efficacy, business environment and entrepreneurial orientation.***

Porter (1995) claimed that regardless of the influence from the environment, management still will have some influence on a firm's strategic orientation. Managers may build and maintain competitive advantage over time by consistently innovate, improve and upgrade the necessary resources. This was supported by a most recent study by Mohd et al. (2015) and Mohd et al. (2014) which suggested that the owner managers' personal factors would determine the entrepreneurial orientation. They found that self-efficacy of owner manager could influence entrepreneurial orientation of an SME. In other words, those who have high self-efficacy are expected to be more entrepreneurial than those of low self-efficacy.

Other researchers (Covin & Slevin, 1987; Zahra, 1996; Dess et al. 1997; Green, Covin & Slevin, 2008; Awang et al., 2010) suggested the role of business environment as moderator when hypothesizing the relationship between entrepreneurial orientation and business performance. However, only a handful of studies (Chen et al., 1998; Andreas et al., 1999) believed that to be true from the consistency in the results. It is also worth mentioning that only a handful of studies have investigated the moderating effect of business environment when examining the relationship between entrepreneurial orientation and performance. Interestingly, recently, Zaika, Gaman, Gaman, Solomko, and Chukaeva (2020) supported what had been claimed by previous researchers regarding the role of business environment as moderating business process and performance. They identified e-commerce as a factor that can contribute to the formation of business environment of a modern entrepreneurship firm.

Additionally, Vrbka (2020) believes that one social factor, which is media and communication, can also contribute likewise as mentioned earlier. Furthermore, many psychologists claim that the interaction between individual motivation and situational condition is able to predict behaviour better than either of them alone (Bandura, 1989; Wei et al., 2020). Furthermore, according to Rauch and Frese (2007), in many studies conducted, the potential mediating processes and situational circumstances were taken no notice of. Hence, based on the argument above, one can conclude that both personal and environmental factors contribute to the entrepreneurial orientation of an owner manager. The present study focused on the interaction between self-efficacy and hostility on impacting entrepreneurial orientation instead of organizational performance. This is because past research (Covin et al., 2020; Ferreras-Méndez et al., 2021) consistently found that EO is a key in improving firm performance. Thus, what explained EO might indirectly impact performance.

Based on the above-mentioned belief, the present study attempted to examine the extent of the impact of personological traits (self-efficacy) and environment (hostility) on entrepreneurial orientation. Would it be that entrepreneurs with a high level of self-efficacy, the environment has no effect on their entrepreneurial orientation? Does this suggest that SME owner managers do not have to be concerned with environmental changes if self-efficacy has a bigger influence? In the context of entrepreneurial orientation studies, previous researchers have not addressed such problems. Rather they have focused mainly on environment and performance. Since the findings of recent research about entrepreneurial orientations show conflicting results, a study on the influence of self-efficacy and environment on entrepreneurial orientation is considered necessary. By conducting this study in which self-efficacy and environment are incorporated, a conclusion with regards to the influence of these two variables on entrepreneurial orientations can possibly be made.

### **Research Methodology**

This study employed a cross-sectional causal research to investigate whether business environment moderates the relationship between self-efficacy and entrepreneurial orientation of Malay business owners. The population of interest are Malay business owners who obtained loaned from Majlis Amanah Rakyat (MARA). The sample was extracted by using the systematic sampling technique from a sampling frame provided by MARA. It is important to note that the SMEs under MARA are closely monitored by them in terms of support for training and guidance. The data consisted of SMEs with 5 years and above of business experience. They receive less supervision so this will genuinely show their entrepreneurial orientations. The present study concentrated only on Malay business owners as Malays are claimed to be lazy and less entrepreneurial (Mohamad, 2018) apart from another factor that Malays represent 60 per cent of the Malaysian population. The sample comprised firms with non-diversified businesses and the number of employees were between 5 and 50.

Those criteria were used to reduce the possibility of interpretational confounds. Moreover, firms which operate at fewer than 5 years are believed to struggle to survive; hence their entrepreneurial orientations may be difficult to be seen. Finally, the size of the firms was set to control for size-related effects on organization structure and firm flexibility (see Mintzberg, 1979).

Since the population of Malay SMEs under MARA was 1545 (round up to 1600), we calculated the sampling size to be 310 following Sekaran and Bougie (2013). Also, as we considered the response rate would be low among the SMEs, the number of questionnaires distributed to the Malay business owners was doubled the sample size. This means 620 questionnaires were mailed to selected Malay business owners the whole of Malaysia. Out of the 620, only 162 came back successfully, this represented a 26 percent response rate (162/620). In terms of the breakdown of the data collected, majority (127) were sole-proprietors, 89 percent of the firms have been in operations between 5 and 8 years, and 83 percent have between 5 and 9 employees.

### *Measurement*

For the entrepreneurial orientation variable (EO), the measure adopted was adapted from Lumpkin and Dess (1996). There were 15 items (5 points Likert scale) and 3 dimensions of the EO: innovative (5 items); proactive (5 items) and risk taking (5 items). The mean score value of EOs among the respondents was 3.53, which indicated moderately high level. Higher overall scores on the 15-item EO scale indicated amor entrepreneurial orientation, while lower scores were indicative of a more conservative orientation. The Cronbach's Alpha score of .904 indicated excellent reliability.

For the self-efficacy variable (SE), the measure adopted was adapted from Chen et al. (2004). There were 22 items (5 points Likert scale). The mean score for SE was 3.81 indicating high level. This means the respondents were confident in handling business tasks. Next, the business environment variable (hostility) was measured by using 6 items (5 points Likert scale) developed by Green et al. (2008). This variable was measured by using the perception of the respondents with regards to the business environment they were in (munificent or hostility). Munificent and hostility were asked with the same questions. The score that was above the mean of 3.00 represented hostility, while below 3.00 meant munificent. The mean of 3.10 indicated moderate hostility (Greenetal, 2008), which means on the aggregate, the environment was perceived as moderately hostile. The Cronbach's Alpha for the items was 0.8 which indicated good reliability.

### *Data Analysis*

The analyses were conducted in two stages. The first stage was to identify the goodness fit of data. This involved the analysis of normality, mahalanobis distance, autocorrelation and multicollinearity tests. All the tests conducted indicated the data collected was fit. This means the sample was normally distributed (Z score of skewness and Kurtosis were within the range of +/-1.96; the mean and median were almost the same. There was no serious problem with autocorrelation (the value for Durbin Watson was 1.8) or multicollinearity (tolerance score for every variable was all above .10 and the VIF score for all variables were less than 10).

### *Second Stage of Analysis: Hypothesis Testing*

The hypothesis of the study was H1: the self-efficacy of Malay business owners influences their entrepreneurial orientation when the business environment is hostile. The hierarchical regression analysis was employed to test this hypothesis following Sharm et al. (1981) moderating test. This test was employed because it proposes other possible roles for the moderator variable if the one applied was not found to be a moderator. Hence, the role of perceived hostility environment can be confirmed by using one test. Additionally, Sharma et al. (1981) have identified two types of moderators: quasi (partial) and pure.

The moderator type can be identified through 4 steps of the Moderated Regression Analysis (MRA). The first step examines the significant interaction between SE (predictor) and the Hostility variable (moderator). According to Sharma et al. (1981), if a significant interaction was found, proceed to step 2 to determine whether Hostility was related to the criterion. If there was, then Hostility is a quasi- moderator variable. Next, if in step 1, there was no significant interaction between SE and Hostility, then proceed to Step 3. Step 3 investigates whether Hostility is related to SE or Hostility. If it was related, then perceived hostility is not a moderator but could be an exogenous, predictor, intervening, antecedent or a suppressor. If Hostility was not related to either predictor or the criterion variable, then only proceed to step 4. Here, the sample is split into subgroups based on the hypothesized moderator variable. If significant differences were found, hostility is a homologizer variable operating through an error term.

As shown in Table1, when step 1 was applied, there was no significant interaction between SE and Hostility with EO as the criterion. Therefore, step 3 was applied in order to test whether Hostility has significant relationship with EO or SE. This was tested by using correlation. The results were displayed in Table 2.

		R	R <sup>2</sup>	Change in R <sup>2</sup>
	<u>Independent variable</u>			
model 1 (SE was entered)	SE	.459**	.210	.210
model 2 (PH was added)	PH	.471	.222	.012
Model 3 (SE*Hostility was added)	<u>Interaction</u>			
	SE*PH	.481	.231	.009

*Dependent variable, EO: \*\*p<0.001*

	1	2	3
EO	1	.459**	.216**
SE		1	.243**
Hostility			1

*\*\* Correlation was significant at 0.01 level 2-tailed*

Table 2 showed that Hostility was significantly correlated with both ( $\beta=.243, p<.01$ ) and EO ( $\beta=.216, p<.01$ ), but at a weak relationship. This confirmed the invalidity of the moderator, i.e. Hostility on the relationship between SE and EO. Additional to these basic considerations, Baron and Kenny (1986) suggested that it is desirable that the moderator variable be uncorrelated with both the predictor and dependent variable so as to provide a clearly interpretable interaction term. Thus, the hypothesis failed to be supported.

Similarly, Sharma et al. (1981) also suggested that if a tested moderator variable was found to be related to either predictor or criterion, but with no significant interaction between the tested moderator variable and criterion, then it could be treated as any of the mentioned roles. Hence, based on the results, Hostility is suggested to be either an antecedent to self-efficacy, or an intervening variable between self-efficacy and entrepreneurial orientation.

## Discussion

This research was conducted to consider the influence of self-efficacy and hostility on entrepreneurial orientation in which achievement (performance) is indirectly reflected by the level of entrepreneurial orientation of the business owner. This stand was taken because the relationship between entrepreneurial orientation and performance was consistently found to be positively related in prior research outcomes (Zahra, 1996; Dess, Lumpkin, & Covin, 1997; Lumpkin & Dess, 2001; Covin et al., 2020; Ferreras-Méndez et al., 2021). That was the reason why the focus was on the antecedent of entrepreneurial orientation as this gives special attention to the psychological characteristics of the business owner, which is against entrepreneurship.

The finding of the present study did not support neither Bandura's Social Cognitive Theory nor the theory of the group of researchers who proposed positive relationship between self-efficacy and entrepreneurial orientation when the environment is favorable. The reason being under the present study, hostility did not moderate the relationship between self-efficacy and entrepreneurial orientation. The role of environment as moderator was also not uncovered. Hostility that is perceived may be regarded as an antecedent that may influence self-efficacy or it can be treated as a mediator that could possibly change someone's entrepreneurial orientation. The finding that was not consistent with past researches could be due to the unique characteristics of Malay business owners. In Malaysia, the Malays make up the majority of the population and being Malays, they are Muslims. Their self-efficacy will obviously be very much influenced by their religion (Mohd et al., 2015). Moreover, Islam teaches Muslims not to fear any difficulties. Should there be difficulties or challenges, they strong have strong hope in Allah for help. In the context, hostility is a challenge to them. The religion teaches them to say their prayers plus make effort to overcome the challenge. Only then would Allah give His blessing.

It is important to note that the business owners whom studied have been with MARA. This means they have gained business knowledge and business acumen from the training conducted for them by MARA officers and through life experiences. More future research is needed to confirm whether hostility is an antecedent or a mediator that can influence entrepreneurial orientation when self-efficacy changes. It is also beneficial to identify if certain period of training and guidance is necessary that affects the self-efficacy of Malay business owners positively. Although it is obvious that self-efficacy can influence decision and actions. The expected outcomes above may uncover if Malay business owners were under MARA, not the independent Malay business owners. That being so as the present study was conducted only among Malay business owners whom were funded or loaned by MARA. Generalizability could not be made if Malay business owners were taken from the whole of Malaysia. However, a more conclusive result can be obtained if future research includes Malay business owners with and without MARA loans.

Although this was contrary to the findings of other SE and EO researches (Bandura, 1989; Zahra, 1996; Chen et al., 2004), the outcomes would be supported by the theory of Bandura (1989) with regards to the role of self-efficacy as predictor to behaviors. According to the Social Cognitive Theory of Bandura, people tend to avoid situations in which they are incapable of handling (exceeding their coping skills). Usually, they get involved in activities they believe they were capable of handling. This belief supported a study by Mohd et al. (2014) whom uncovered the important role of self-efficacy as determining the entrepreneurial orientation of Muslim business owners. However, the finding did not support the criticisms advanced by Gartner (1988), Baron (2004), Kumar (2007) and Chattopadhyay and Ghosh (2008), in that those psychological traits alone are adequate in explaining the entrepreneurial orientation of Malay business owners. Yet, the finding was not conclusive because the present study involved only Malay business owners in Malaysia and the finding was expected to describe the Malays in Malaysia.

Since hostility was found to be significantly and positively related to both SE and EO, this variable has the potential to be treated as either an antecedent or intervening variable (Sharma et al, 1981). If it was treated as an intervening variable, the self-efficacy of an individual Malay SME has the potential to alter his or her perception of the hostility environment. In turn, this would affect their entrepreneurial orientation. Indirectly, this means the higher the self-efficacy of a Malay SME, the more hostile he or she perceives the environment; hence the more entrepreneurial he or she becomes. Thus, uncovering the important role of self-efficacy in changing entrepreneurial behavior of Malay business owners. Even if perceived hostility was regarded as antecedent when Malay business owners perceived the environment as hostile, their self-efficacy might be higher to affect the entrepreneurial orientation positively. Those findings, however, did not conform to the findings of Bandura(1989) in relation to the theory of self-efficacy or that of Zahra(1996). Regardless, the outcome of the present student had successfully demonstrated the important role of self-efficacy in determining the entrepreneurial orientation of an individual Malay business owner. The findings of the present study had supported Chen et al. (2004), Mohd et al. (2014), Wei et al. (2020), Erum et al. (2020) and Ilyas et al. (2020).

### **Implication**

A number of the practical and managerial point of views have been implicated from the present study. In favor of business practitioners, Malay business owners may learn from the Malay entrepreneurial orientation model that the present study has generated with regards to assessing their entrepreneurial orientation through their self-efficacy level. Specifically, the model may help them to learn the way to perceive business environment that will influence their self-efficacy before changing their entrepreneurial orientation. Additionally, the model may serve as a tool in hiring business partner(s) by looking at their self-efficacy level and the way they perceive the business environment. The more they perceive the environment as hostile, the higher will be their self-efficacy. In turn, this is likely to influence them to change their entrepreneurial orientation positively. Especially beneficial is for firms that are hiring applicants for managerial positions as this model facilitates them in choosing the right candidate.

The Malaysian government also gets to benefit from the model as it provides a fresh approach to improve Malay business owners. For instance, the training module employed by MARA should include ways to improve the self-efficacy of Malay business owners. Since self-efficacy reflects their certainty in performing business related tasks is reflected in self-efficacy, the confidence of the business owners can thus be upgraded via an effective training module that focuses on building specific skills that can enhance that aspect.

In the education institutions on the aspect of pedagogy, it is beneficial to embed self-efficacy development in the entrepreneurship curriculum. This can install entrepreneurial mindset in the students. For future career, this eases them in making decisions pertaining to entrepreneurship and entrepreneurial.

The model can also be used by universities and workplaces that offer intrapreneurship programs. Students and employees whom have positive entrepreneurial orientation can be easily identified so that training can be conducted to steer their self-efficacy for consistent entrepreneurial orientations.

### Limitations of the Study and Future Research

As most of the respondents are from the West Coast of Malaysia, this matter posed geographical and situational constraints. Obviously, the people from the West and East Coast of Malaysia have different beliefs, values and thinking. This means the Malay SMEs from the East Coast of Malaysia may have different values and this affects their perception of the environment. As such, self-efficacy is likely to be affected. Hence, a wider geographical area is needed in future research as this is preferable for generalizing the results to the population of interest. Consequently, a more convincing and definitive conclusion can be made regarding the phenomena of the present study.

Additionally, future research is recommended because the response rate experienced in the present study was very low, at 26 per cent. Last, but not least, a large sample size is preferable as only then will the research be substantive enough for a behavioral research type. Another important point to note is that all the respondents obtained loan from MARA; hence the results cannot be generalized to the entire Malay population in Malaysia. The future researcher is encouraged to do research addressing the psychological characteristics and sociological influences pertaining to entrepreneurial orientations. As mentioned earlier, the representative sample should be large enough inclusive of multiple industries and races, along with provisions that accommodate inter-industry variations and life cycles.

### Conclusion

Past researchers hypothesized that business environment is an important factor that can influence entrepreneurial orientation and behavior. However, contradictory to those past researches, the outcome of the present study revealed that business environment was non-significant and also a non-situational factor to entrepreneurial orientation. Despite the paradoxical situation, the outcome also revealed that business environment could at least play the role of antecedent or intervening variable. Although, environment did not moderate the relationship between self-efficacy and entrepreneurial orientation, and as such it was unable to support past researches, this provided an important indication to the Malaysian government. It implied that the Malay SMEs did not improve as much as incentives given to them by the government. Last, but not least, the findings also uncovered an important role of self-efficacy which could make owners or managers of SMEs to be either entrepreneurial or less entrepreneurial.

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