

## **Entrepreneurial Orientation (EO) In Malay Family Firm: Evidence from F-Pec Model**

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### **Abstract**

*This paper aims to propose a conceptual framework to study the relationship between Family Influence (F-PEC Scale) and Entrepreneurial Orientation. Apparently the framework suggests that Entrepreneurial Orientation is influenced from the Family Influence (F-PEC Scale). From the review of literatures, hypotheses were developed to suggest the relationship between Family Influence (F-PEC Scale) and Entrepreneurial Orientation by choosing the Bumiputera SMEs in Terengganu, Malaysia as the research sample. Findings from the study support all of the hypotheses thus contribute both to the entrepreneurial orientation (EO) and family business literatures. In addition, the study is also contributed to the family business literatures by focusing on indigenous family firm (Malay family) in a developing country (Malaysia).*

**Keyword:** Entrepreneurial orientation, F-PEC Scale, Entrepreneurship, Family Influence

### **1. Introduction**

The relationship between entrepreneurship and organizational context has long had the attention of researchers. Research on entrepreneurship at the individual level has found some empirical evidence to support the idea that entrepreneurship is influenced from the organizational context, but literature about entrepreneurship at the corporate level is rare. In fact, a growing stream in these studies indicates that organizational context plays an important role in corporate entrepreneurship (Covin & Slevin, 1989). In this line of research, “Entrepreneurial Orientation (EO)” has provided a useful framework, and many scholars have used it to understand the processes and activities within corporate entrepreneurship (Wiklund & Shepherd, 2003; Covin & Slevin, 1989). As Naldi et al. (2007) stated, EO is accepted as a concept to refer to a kind of “strategic orientation”.

In order to support the well being, competitiveness and goals of the family businesses, a strategic orientation must be brought to their operations (Miller et al., 2000). Resources and capabilities alone do not impact performance unless they are turned into process (Ray et al., 2004). Although previous researchers have addressed the reciprocal nature of the family and business setting, few have explored quantitatively the family and its interaction with and effects on the business (Heck & Stafford, 2001). The F-PEC model employed in this study provides this quantitative measurement so the family business research area can move into the realm of strategic thinking by investigating the resources of the businesses and analysing the strategic alternatives within the entrepreneurial nature.

Family firms are able to contribute to our understanding of the past, current and future of the world economy (Yeung, 2000). Due to the complex nature of the business environment today, family firms are facing various challenges and dilemmas in their growth and evolution. Looking at the Malaysian context, the promotion of Indigenous or Bumiputeras (Malay) into trade and industry is often seen as a socioeconomic initiative engineered by the Malaysian government. The respective policies under the New Economic Policy (NEP) and National Development Policy (NDP) sought to enhance and intensify the participation of Indigenous or Bumiputera economic and business ventures. However, it was widely acknowledged by the government and the Indigenous or Bumiputera Business leaders and intellectuals that the policies have not succeeded as targeted.

Although previous researchers have addressed the reciprocal nature of the family and business setting, few have explored quantitatively the family and its interaction with and effects on the business (Heck & Stafford, 2001). The F-PEC model employed in this study provides this quantitative measurement so the family business research area can move into the realm of strategic thinking by investigating the resources of the businesses and analysing the strategic alternatives within the entrepreneurial nature.

Furthermore, research into different entrepreneur types is needed since entrepreneurs cannot be treated as a homogenous entity with homogenous orientation (Ucbasaran et al., 2001). Previous understanding of entrepreneurial orientation (EO) theory is mainly western-based and of non-indigenous orientation. Western theories need to be modified to explain the attitudes and orientations of Indigenous entrepreneurs when investigating non-western environments (Dana, 2000). Thus, developing a better understanding of Indigenous entrepreneurship is very crucial for two significant reasons.

Thus this study aims to investigate the relationship between the extent of family influence and the entrepreneurial orientation (EO) of Malay family firms. In addition the family influence has to be supported by government aided programs (GAP). Therefore, this study also analyses the relationship between family influence and government aided programs (GAP). It is proposed that the extent of family influence in Malay family firms impacts the EO of business. Therefore, this study is structured as follows: First, a summary of literature on the concept of family influence and the entrepreneurial orientation (EO) is thoroughly discussed. Second, the proposed conceptual framework is highlighted. Third, the methodology and sample are both described and finally the conclusion is provided by summarizing the avenues for future findings.

## **2. Literature Review**

### **2.1 Underlying Theory**

Although past literatures have discussed entrepreneurial orientation (EO) and family firms from various angle, as far as the social sciences as concerned there are still gaps in the literature. In fact, most of the works presented discuss the antecedents of the entrepreneurial orientation (EO) or the consequence of entrepreneurial orientation (EO) on firm growth/performance. Assessing the extent of family influence towards entrepreneurial orientation (EO) has rarely been discussed.

Family businesses are, by their nature, complicated by the dynamics within the family (Olson et al., 2003). A detailed review of definitions employed in studies reveals that assessing the extent of family influence is important in order to capture the distinction between family and non-family types of entities (Astrachan et al., 2002). In family business literatures, some researchers have attempted to distinguish between family businesses and non-family businesses by developing conceptual and operational definitions (e.g Chua et al, 1999; Gudmunson et al., 1999). Thus important extensions of these research streams would be fruitful endeavors (Ibrahim et al., 2008).

There have been various culture-related entrepreneurship studies in the past decade. With some minor exceptions, few culturally-related researches have been undertaken into entrepreneurial attitude. Most entrepreneurial attitude research has focused on western oriented, non-Indigenous entrepreneurs though at least one study investigated the entrepreneurial attitudes of Indigenous entrepreneurs. Culture is important to Indigenous people and they have strong feelings toward their self-determination, their land and their heritage. Given the deep-rooted nature of Indigenous culture, culture must feature as a contextual variable in Indigenous entrepreneurial orientation (EO) theory.

This research therefore, approaches the question of the nature of Indigenous entrepreneurship from family influence perspective by investigating the relationship between the extent of family influence and the entrepreneurial orientation (EO) of Malay family businesses. It is proposed that the extent of family influence in Malay family firms impacts the entrepreneurial orientation (EO) of the businesses.

In addition, the family influence has to be supported by appropriated government aided programmes for improved entrepreneurial activities. Hence, this research also analyses the relationship between family influence and government aided programmes. The implications are vital since Malay family firms in Malaysia must continuously improve to remain competitive at national and international level.

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

Entrepreneurial orientation (EO) has been recognized as one of the important factors for firm's growth and profitability. High growth has been related with a firm's entrepreneurial orientation (EO) (Stevenson & Jarillo, 1990). Thus, growth tends to be a result of innovativeness, pro-activeness and risk-taking behaviour on the part of the firm, as these are the dimensions which refer to an entrepreneurial orientation (EO). The relationship between the entrepreneurial orientation (EO) of the firm and its performance has been widely discussed, conceptually (Covin & Slevin, 1991; Lumpkin & Dess, 1996) and empirically (Covin & Slevin, 1989; Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003). However, many questions remain unanswered (Moreno & Cassilas, 2008).

In order to understand the conditions under which an entrepreneurial orientation (EO) enhances firm performance, a contingency perspective that emphasizes the importance of fit among a firm's strategic posture and other constructs of interest is needed (Lumpkin & Dess, 1996). In fact since the work of Miller (1983), previous entrepreneurship literatures have instead focused on the impact of environmental, strategic, and organizational contingencies on firm level entrepreneurship (Zahra et al., 1999). Miller (1983) suggests the researchers, as they study firm-level entrepreneurship, to consider unique characteristics of different types of firms. A growing literature argues that family firms are very different from other firms due to the unique characteristics among individual family members, the family systems and the business system (Tagiuri & Davis, 1996). Hence, recognizing the factors that enhance or constrain entrepreneurial orientation (EO) and performance represents an important research agenda (Lee et al., 2001).

The relationship between entrepreneurial orientation (EO) and firm performance has become the main subject of interest in past literatures which are concerned with the positive implications that entrepreneurial processes have on firm growth and performance (Lumpkin & Dess, 1996; Wiklund, 1998; Zahra et al., 1999). Entrepreneurial orientation (EO) is regarded as inevitable for firms that want to prosper in competitive business environment. However, Lumpkin & Dess (1996) suggest that the positive implications of the entrepreneurial orientation (EO) on firm performance are context specific and may vary independently of each other in a given organizational context.

### **Family Businesses**

Entrepreneurship research on family businesses is increasing but still scarce (Habbershon & Pistrui, 2002; Zahra, 2005; Naldi et al., 2007). Although family businesses constitute a major portion of all national economies (Astrachan & Shanker, 2003; Chrisman et al., 2005; Morck & Yeung, 2003), scholars have differing views about the extent in which family businesses constitute an organizational context that supports or constraints an entrepreneurial orientation (Habbershon & Pistrui 2002; Zahra, 2005, Naldi et al., 2007). Several arguments support the view that family businesses can preserve their entrepreneurial capacity (Aldrich & Cliff, 2003; Zahra et al., 2004). However, at the same time, family businesses have also been viewed as an example of entrepreneurial business (Litz, 1995).

Family businesses have their own unique challenges. In the book, *Perpetuating the Family Business: 50 Lessons Learned from Long-Lasting, Successful Families in Business*, by Professor John L. Ward as reviewed by Pistrui (2005) highlighted the most critical challenges facing business owning families are family-based issues and it differ depending on where the business is in its evolution. The author contends that the major critical components of long lasting family business resolve around the ability to manage changing family dynamics across generations as well as the three evolutionary business stages of development; owner managed, sibling partnership and cousin collaboration (Pistrui, 2005).

Majority of family businesses are niche players who establishing their own protected market segments and resulted in complacency and do not have desire to grow. The author also argued that in current business environment, long term stable protected niches have all but disappeared and any family businesses who fail to recognize this fact are designed themselves to failure (Pistrui, 2005). Whereas family involvement is invasive in business organization globally, comparatively little research has been dedicated to the study of family businesses.

### **F-PEC Scale**

The F-PEC proposes that there are discrete and particular qualities or characteristics of family businesses and measures these on continuous scale. The F-PEC makes it possible to differentiate levels of actual and potential family involvement and can provide a framework that integrates different theoretical and methodological approaches to the study of the family business (Klein et al., 2005). Since family businesses are often highly complex organizations, measuring the extent to which a family is able to influence the business can be keys to understanding how they function (Klein et al., 2005; Astrachan, 2002; Penttila, 2003). By measuring family influence, we can understand the family businesses more precisely. In fact, family influence on family businesses has attracted considerable study, and the view of family business researchers seems to be shifting toward recognition of the importance of family influence (Penttila, 2003).

The F-PEC scale has 3 parts; power, experience and culture. As observed by Klein et al. (2005) these three sources combined can lead to functional resources, including knowledge and skills. Power refers to dominance exercised through financing the business and through leading and/or controlling the business through management and/or governance participation by the family. Experience refers to the sum of the experience that the family brings into the business and is operationalized by the generations in the firm's management and ownership. According to Klein et al. (2005), the more generations, the more opportunities for relevant family memory to develop and culture refers to values and commitments. The underlying assumption is that commitment is rooted in and shaped by the value of family (Klein et al., 2005).

### **Government Aided Programmes**

SMEs in Malaysia have undergone tremendous development from product development to preparing themselves to export market due to globalization. Among the action taken was the introduction of New Economic Policy (NEP) in 1970 as a response to the growing concern about the economic inequalities between the bumiputera (Malays) and the other races (mainly Chinese) who gaining economic ascendancy (Ariff & Abu Bakar, 2002). Under NEP the focus was put on increasing bumiputera ownership and participation in the corporate sector, improving bumiputera participation in high income occupations, as well as narrowing income inequality and eradicating poverty. Besides that, the policy of creating a Bumiputera Commercial and Industrial Community (BCIC) has been launched to foster bumiputera entrepreneurs, professionals and creating a Bumiputera middle-class (Economic Planning Unit, 2001).

However, notwithstanding the progress made in the creation of a Bumiputera entrepreneurial class over the period 1970-75, the government still felt that the expansion of Bumiputeras (Indigenous) corporate wealth was not being achieved fast enough, and a new legislation, the Industrial Coordination Act, was introduced in 1975. This act required all new and existing manufacturing enterprises (with equity above RM250,000 or a full-time work force of more than twenty for persons) to apply for manufacturing licenses in order to commence or continue operations. In the issuing of the licenses, the government could require the companies concerned to comply with the NEP equity and work force targets. This meant that a vast proportion of the existing SMEs, most of which were family-owned and self-managed enterprises would have to restructure their organizations to comply with the NEP targets if they wish to continue their operations. This created a great deal of uncertainty in the investment environment, and businessmen interpreted it as one with the primary aim of imposing government policy on all manufacturing ventures. The World Bank, in particular, asserted that this act "affected the willingness of local businessmen to invest or reinvest and of new foreign investors to come to Malaysia" (Fong, 1990).

In addition, though more Malays and had moved into the mainstream economy during the period of NEP, their presence has continued to be small and limited. At the end of the NEP period, Malay equity ownership in the corporate sector increased to only 20.3%, far short of the targeted level of 30%. In contrast the equity holdings of non-Bumiputera (non-Indigenous) increased to 46.2% exceeding the target of 40% set for them.

Of the 46.2% achievement, the Chinese share accounted for 44.9%, with the Indians and others holding 1% and 0.3% respectively (OPP2, 1991).

### 3. Methodology

#### Hypotheses

Relationship between family influence (power, experience and culture) and EO.

Entrepreneurship research on family businesses is increasing but still scarce (Habbershon & Pistrui 2002; Zahra, 2005; Naldi et al., 2007). Although family businesses constitute a major portion of all national economies (Astrachan & Shanker, 2003; Chrisman et al., 2005; Morck & Yeung, 2003), scholars have differing views about the extent in which family businesses constitute an organizational context that supports or constraints an entrepreneurial orientation (Habbershon & Pistrui 2002; Zahra, 2005, Naldi et al., 2007). However, entrepreneurial orientation (EO) has been recognized as one of the important factors for firm's growth and profitability. High growth has been related with a firm's entrepreneurial orientation (EO) (Stevenson & Jarillo, 1990). Thus, growth tends to be a result of innovativeness, pro-activeness and risk-taking behaviour on the part of the firm, as these are the dimensions which refer to an entrepreneurial orientation (EO). The relationship between the entrepreneurial orientation (EO) of the firm and its performance has been widely discussed. The relationship between entrepreneurial orientation (EO) and firm performance has become the main subject of interest in past literatures which are concerned with the positive implications that entrepreneurial processes have on firm growth and performance (Lumpkin & Dess, 1996; Wiklund, 1998; Zahra et al., 1999). Based on the above literature, the study hypothesizes, that:

*H1: In Malay family firms, having higher levels of family influence (power, experience and culture) are associated with higher levels of EO*

Relationship between family influences, government aided programmes and level of EO.

As discussed earlier, family businesses constitute a major portion of all national economies (Astrachan & Shanker, 2003; Chrisman et al., 2005; Morck & Yeung, 2003) and entrepreneurial orientation (EO) has been recognized as one of the important factors for firm's growth and profitability. However, recognizing the strong impact of government policies on the growth of private enterprises, entrepreneurs must be able to respond appropriately to the policies enacted. Recent studies have addressed the political imperatives and strategies needed for firms to deal with the governments (e.g., Bonardi, Hillman & Kiem, 2005; Hoskisson et al., 2000). Overall these studies document that corporate politics in relation to governments do influence firm performance. Thus, based on the above literature, the study hypothesizes that:

*H2: In Malay family firms, having higher levels of family influence (power, experience and culture), when supported by government aided programmes are associated with higher levels of EO*

#### Questionnaire Design

The questionnaire was composed of 3 major parts: F-PEC scale, entrepreneurial orientation (EO) and government aided programmes. The extent of family influence is measured by standardized and valid instrument, the F-PEC, which was developed by Astrachan et al. (2002). The instrument assesses family influence on a continuous scale, rather than as categorical variable. The F-PEC is comprised of three subscales: power, experience, and culture. The respondents were requested to rate on a scale of 1 (strongly disagree) to 5 (strongly agree) on each of the statements (Likert scale).

The entrepreneurial orientation (EO) of the entrepreneurs in Malay family firms in Malaysia is measured by examining three major elements: (1) Innovativeness, (2) Pro-activeness, and (3) Risk Taking via Likert scale. The statements were adopted from Covin and Slevin (1989) and Kreiser et al. (2002). The government-aided programme on the other hand is measured by examining four elements: (1) Government Support, (2) Training and R&D Institutions, (3) Financial Assistance, and (4) Legal and Institutional Environment which was adopted from Tzelepis and Skuras (2004) and Zhang and Si (2008). Like the previous section, the Likert scale on a scale of 1 (strongly disagree) to 5 (strongly agree) has been used on each of the statements given.

## **Research Sample**

The sampling frame of this study was Bumiputera SMEs in Terengganu, Malaysia. A list of Bumiputera SMEs firms is selected from the current available list given by Yayasan Pembangunan Usahawan Terengganu (YPU) as at December 2010. A complete population of entire firms in the list will form the sample for this study. The target respondents are a single member of business owners / senior management in each firm.

## **Analysis Data**

Five main statistical techniques are to be undertaken in this study, namely factor analysis, reliability analysis, descriptive analysis and multiple linear regression analysis.

## **Results and Discussion**

This study examined the relationship between Family Influence (F-PEC Scale) and Entrepreneurial Orientation. In addition the family influence has to be supported by government aided programs (GAP). Therefore, this study also analyses the relationship between family influence and government aided programs (GAP).

The extent of family influence is measured by standardized and valid instrument, the F-PEC, which was developed by Astrachan et al. (2002). The F-PEC is comprised of three subscales: power, experience, and culture. The entrepreneurial orientation (EO) of the entrepreneurs in Malay family firms in Malaysia is measured by examining three major elements: (1) Innovativeness, (2) Pro-activeness, and (3) Risk Taking. The government-aided programme on the other hand is measured by examining four elements: (1) Government Support, (2) Training and R&D Institutions, (3) Financial Assistance, and (4) Legal and Institutional Environment which was adopted from Tzelepis and Skuras (2004) and Zhang and Si (2008). Thus, the hypotheses are;

H1: In Malay family firms, having higher levels of family influence (power, experience and culture) are associated with higher levels of EO.

H2: In Malay family firms, having higher levels of family influence (power, experience and culture), when supported by government aided programmes are associated with higher levels of EO.

First of all, the study employed factor analysis for Family Influence (F-PEC Scale). The F-PEC Scale has three parts which is power, experience and culture. In this case, 13 items representing information on Culture was selected. The results indicated that the Kaiser – Meyer –Olkin (KMO) measure of sampling adequacy at 0.928, indicating that the items were interrelated and they shared common factors. According to Coakes et al. (2006), acceptable limit for KMO is 0.60 and Sharma (1996) postulated that guided by Kaiser and Rice (1974), KMO within 0.70 is considered middling and is acceptable.

Bartlett's test of sphericity was also found to be significant (Approx. Chi-Square = 240.302,  $p < .001$ ) indicating the significance of the correlation matrix and thus the suitability for factor analysis. The individual MSA values ranged from .61 to .86, indicating that the data matrix was suitable to be factor analyzed. Results of the varimax rotated analysis indicated the existence of one significant component with eigenvalues 1.032 that explained 74.30 % of the total variances.

In the same measurement to Government Aided Programs (GAP), factor analysis was undertaken to assess the validity as a moderating variable. There are eight items in the survey that measure the Government Aided Program. Table 4.4 below showed that the KMO measure of sampling adequacy value for the items was .77; indicating that the items were strongly interrelated and they shared common factors. Bartlett's test of sphericity was also found to be significant (Approx. Chi-Square = 530.142,  $p > .001$ ) indicating the significance of the correlation matrix and thus the appropriateness for factor analysis. The MSA values for the individual items ranged from .67 to .86, indicating that the data matrix was suitable for factor analysis. Results of the varimax rotated analysis indicated the existence of one significant component with eigenvalues 1.401 that explained 74.30% of the total variances.

Lastly, factor analysis was undertaken to assess the validity of Entrepreneurial Orientation (EO). There are seven items in the survey that measure the Government Aided Program. Table 4.5 below showed that the KMO measure of sampling adequacy value for the items was .68, indicating that the items were strongly interrelated and they shared common factors.

Bartlett's test of sphericity was also found to be significant (Approx. Chi-Square = 530.142,  $p > .001$ ) indicating the significance of the correlation matrix and thus the appropriateness for factor analysis. The MSA values for the individual items ranged from .63 to .86, indicating that the data matrix was suitable for factor analysis. Results of the varimax rotated analysis indicated the existence of one significant component with eigenvalues 1.014 that explained 69.22% of the total variances.

For reliability analysis, the Cronbach's Alpha for all the variables scales were in the range of .56 to .95, above the minimum accepted reliability .50 as suggested by Nunally (1987). Culture aspect from F-PEC Model was considered reliable with Cronbach's alpha scale is .95. Then, all the other two variables which is Government Aided program and Entrepreneurial Orientation shown their cronbach's alpha scale also above the minimum accepted reliability. The cronbach's alpha for Government Aided program and Entrepreneurial Orientation were .83 and .56 respectively.

To test the relationship between Family Influence (F-PEC Scale) and Entrepreneurial Orientation (EO), this study used Hierarchical Multiple Regression. The study found that the F-PEC model has significant effect with Government Aided Programs and Entrepreneurial Orientation (EO) ( $p\text{-value} < 0.05$ ). However, only Culture sub-scale in F-PEC model had shows significant result when individual test was conducted. Other sub-scale such as Experience and Power did not have significant relationship with Government Aided Programs and Entrepreneurial Orientation (EO). On the other hand, the Government Aided Programs has significant relationship with Entrepreneurial Orientation (EO) ( $p\text{-value} < 0.05$ ). Hence, further analysis was established by using hierarchical regression. This study used F-PEC model that includes Power, Experience and Culture to test the relationship between the family influences and Entrepreneurial Orientation (EO). Contrary with the expectation, the result showed the Culture is the only scale that has significant influence on Entrepreneurial Orientation (EO). However, when mediator variable, Government Aided Programs (GAP) was included in the model, F-PEC became significant with  $0.014 < 0.05$  at step 4. The model was found to be more significant at step 7 when all variables were included in the model. Furthermore, the value (Adjusted R Square) improves the model from 9.8% to 10.8%. . The Pearson correlation (R) representing the relationship between variables also increased from 0.406 to 0.429. The hypothesis for the mediator variable is supported since the relationship between interaction variable with the dependent variable is significant. Thus, the government aided programs (GAP) proved to be a mediator between the F-PEC and Entrepreneurial Orientation (EO).

### ***Conclusion and Implications***

The study examined the relationship between Family Influence (F-PEC Scale) and Entrepreneurial Orientation. In addition the family influence has to be supported by government aided programs (GAP). Therefore, this study also analyses the relationship between family influence and government aided programs (GAP). In this study, the extent of family influence (F-PEC) and government aided programs (GAP) were analysed with hierarchical regression to determine their impact on entrepreneurial orientation (EO). Both hypothesis H1 and H2 are supported. However, individual test on family influence (power, experience and culture) revealed that only Culture sub-scale in F-PEC model had shows significant result. Other sub-scale such as Experience and Power did not have significant relationship with Government Aided Programs and Entrepreneurial Orientation (EO). Nevertheless, when mediator variable, Government Aided Programs (GAP) was included in the model, F-PEC became significant with  $p < 0.05$  and become more significant after all variables were included in the model. Furthermore, the value (Adjusted R Square) improves the model from 9.8% to 10.8%. The Pearson correlation (R) representing the relationship between variables also increased from 0.406 to 0.429. The result of hierarchical regression reveals that FPEC become significant when it accompanied by government aided programs (GAP). The increase in the R square signifies that the Entrepreneurial Orientation (EO) of Malay family firms increases when F-PEC is supported with Government Aided Programs (GAP). In other words, for Malay family firms in Malaysia to be entrepreneurial, the power, experience and culture distinctiveness of family firms are not enough; these family business characteristics have to be supported by Government Aided Programs (GAP).

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The proposed framework depicted in Figure 1 below will fill the gaps from the previous works done by earlier researchers in this area:

Figure 1: Proposed Conceptual Framework

