STATE GOVERNMENT ROLES AS MODERATOR IN ENTREPRENEURIAL ORIENTATION AND ORGANIZATIONAL STRUCTURE RELATIONSHIP

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Abstract

SEDCs are the central representative in dispersing economic development at the state level. There are thirteen SEDCs in Malaysia. Each state SEDCs have its owned subsidiaries which are known as states government link companies or SGLCs. The aim of SGLCs establishment are fulfilling obligatory of raising Bumiputera participation in states economic sectors. Global dynamism required enterprises to suit and made changes accordingly. Thus SEDCs thru its SGLCs should fully run based on five EO dimensions namely autonomy, competitive aggressiveness, innovativeness, pro-activeness and risk takings in order to meet the obligation. Currently, five EOs have not been fully practices in state enterprises. Thus, the role of state government in rectifying this matter is important to ensure SGLCs aims are not diverted by other than noble intention and will be tested in this research. Besides that, SGLCs too have faced with internal problems related to culture as indicated by Hofstede, and organizational culture as mentioned by Schein. This paper proposed the conceptual model which highlighted the role of state governments’ as the moderating construct in the relationships between Entrepreneurial Orientation and Organizational Culture towards the performance of State Government Link Companies in Malaysia.

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Keywords: State economic development corporation, state government link companies, entrepreneurial orientation, organizational culture.
1. Introduction

Malaysia is well known as a multiracial country with entire inhabitant of 31.7 million. The largest ethnic group accounted 68.6 per cent is Bumiputras (Department of Statistics, 2016). The word Bumiputra derives from the Sanskrit word Bhumiputra, which explained accurately as "son of earth" (bhumi= earth, putra=son) or son of the soil. Malays was the major Bumiputra group in Peninsular Malaysia (63.1 percent) while Bumiputra Ibans represent 30 per cent of the entire population in Sarawak (Sarawak Tourism Federation, 2017) and Kadazan/Dusun was the biggest Bumiputra ethnics group made up 17.82 per cent in Sabah (Department of Statistics, 2016).

1.1. The New Economic Policy and Post NEP

In early 1970, the Malaysian administration announced a brave and well-structured 20 years economic planned (1970-1990) known as New Economic Policy (NEP) (Second Malaysia Plan, 1991). The NEP came with two main purposes specifically “poverty eradication regardless of race” and “restructuring society to remove the forms of race with economic function” (Malaysia, 1971). In order to achieve the objectives, the federal government relied significantly on the states venture in public agencies and state-owned enterprises which later known as government link companies (under the federal) and state government link companies (under the state governments).

1.2. Brief History of SEDCs and its SGLCs

History of SEDCs can be traced back as early as 1960s when the federal government established few agencies under state enactment as shown in table 1.0. Ideally, SEDCs’ responsibilities were to drive Bumiputera social and economic sectors in area of rural development, agriculture, new township, industries and other sectorial that do good to people.

<table>
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<tr>
<th>SEDC</th>
<th>Y.O.E</th>
<th>ESTABLISHMENT ACT</th>
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<tr>
<td>Selangor State Dev. Corporation</td>
<td>1964</td>
<td>STDC Act No.4 Year 1964</td>
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<td>Kelantan State Economic Dev. Corporation</td>
<td>1966</td>
<td>State Act No.12 Year 1966</td>
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<td>Johor Corporation</td>
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<td>Terengganu State Economic Dev. Corporation</td>
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<td>Enactment No.5 Year 1965</td>
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<td>Perlis State Dev. Corporation</td>
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<td>Kedah State Economic Dev. Corporation</td>
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<td>Penang State Dev. Corporation</td>
<td>1971</td>
<td>Enactment No 1, Year 1971</td>
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<td>Perak Sate Dev. Corporation</td>
<td>1969</td>
<td>Enactment No 4 Year 1969</td>
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<td>Melaka State Development Corporation</td>
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<td>Negeri Sembilan State Dev. Corporation</td>
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<td>Pahang State Dev Corporation</td>
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<td>Sarawak State Development Corporation</td>
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<td>Sabah State Development Corporation</td>
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<td>State enactment 1971</td>
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Sources: Yearly Report of State Development Corporation and Official web of SEDCs

In 1969, the federal introduced an exceptional group for SEDCs’ synchronization. By 1974, the government legitimately formed The Federal Ministry for the Coordination of Public Corporation (MCPC)
to monitor performance of the thirteen SEDCs and some thirteen other federal agencies. The team members comprise of representatives from the Economic Planning Unit (EPU), ICDAU, and the Federal Industrial Development Authority (FIDA) which clearly nominated from management officers who lacked know-how in term of investment practicability to take on project feasibility as required by SEDCs.

In 1976, the Ministry of Public Enterprises (Kementerian Perusahaan Awam or KPA) was established in replacement of former MCPC and directed all local and foreign joint venture agreements refer to the Ministry office for evaluation. In consequence, the move was well-thought-out as an attempted to control SEDCs. In 1980 the Federal (state Legislation) Competency Act 1962 was revised to further screen these SEDCs, corporations and other agencies. As a result of amendments, the Minister of Public Enterprise and the Ministry of Finance turn out to be powerful entities in controlling over the state statutory bodies for the most part, SEDCs.

In 1990, the Ministry of Public Enterprises was rebranded and recognized as the Ministry of Entrepreneur Development. This revealed the Federal Government’s first-hand emphasis on entrepreneurship and subsequently after the rebranding movements, SEDCs came under the overall regulator of a new Ministry. By 2009, the ministry of entrepreneur development was dissolved by Mohd Najib Abdul Razak and switched under small entrepreneurial unit called TERAJU, under the special unit in the Prime Minister Department.

1.3. Significance of SEDC and its SGLCs to the states’ economy

There are 13 SEDCs throughout Malaysia. SEDCs have involved in profitable ventures through creation of businesses under company act 1965 known as State Government link Companies (SGLCs). This was significant passage which states grasp equity ownership through SEDCs similarly as federal government did in GLCs. The roles play by SEDCs in trade and industry growth are vital. through royalty, premium, forest tax, zakat and rental. SEDCs benefits the states by successfully routing product and services to end users, further, by building up a new business with resources advantages and by building up entrepreneurship whereby SGLCs could be the best setting for training and creating successful entrepreneurs.

Recent scenario shows SEDCs and its SGLCs moderately involve in economic participation by moving forwards in businesses that require huge capitalism and technical expertise such as in the healthcare industry, education, theme parks and plantation. As a result, many bumiputera employees were hired to accommodate human capital requirement. However, to what extent these exercises objectively honor original objectives of SEDCs establishment?

2. Problem Statement

Even though few SGLCs were established as early as 1960s, but its performance were not to the anticipation of state authorities. Its overall performance continues to be a major concern and received well thoughtfulness from academicians since 1970s (Kumar, 1993; Ahuja and Majumdar, 1998; Dewenter and Malatesta, 2001; Wei et al., 2003; Megginson et al.,2004; Abdul-Aziz et al., 2007; Suraiya, 2011). Many critics claim SGLCs could perform better than other private firms because of its closeness to the state
governments whom have autonomy, reserve availability and other trade and industry prospects (Wei and Hooi, 2011).

Auditor general reports for 2012, 2013, 2014 and 2015 exposed SGLCs weaknesses in various business aspects from simple to complex issues such as in management, operations, finance & accounting, project management, marketing, audit, human resource management, quality control, construction management, and also strategic management. Resident researchers (Storz,1999; Shukor, 2006) underlined that the failure or success of Malays and Bumiputera in business possibly due to their sociocultural and attitudinal aspects. Previously as emphasized by Dr Mahathir in his book, The Malay Dilemma, had single out the insufficiency of business culture lead to Malays lagged and become uncompetitive and poor in business endeavour which becomes barrier to business growth (Mahathir, 1970).

3. Literature Review

3.1. Entrepreneurial Orientation in SGLCs

Entrepreneurship takes place in any size of private, public, or non-profit sector. Undeniably, companies like SGLCs are to adopt entrepreneurial manners in order to ameliorate their performance (Konstantinos et al., 2016). Firms with EO characteristics normally characterized by its management smartness, attitude, manners, plans, that are distinguished thru its autonomous, innovative, risk taking, proactive, and aggressive conducts toward its challengers (Jim et al., 2015). In the same way, firms like SGLCs can profit by doing things in entrepreneurial fashion (Kamariah et al., 2015) besides in search of new opportunities to broaden their market share (Galina et al., 2016).

Based on literature reviews, there are five dimensions of entrepreneurial orientation that shall culturally been practices in SGLC organizations. The first EO dimension is autonomy, the action of the firm to self-reliantly make core decisions, without inflexible directions (Lumpkin and Dess, 1996). By consenting the action, the establishment has captured the independent actions of individuals in recognizing and exploiting opportunities (Lumpkin and Dess, 1996). However, autonomy become worthless if the third party interfere in pointless manners. As a result, in a long run, it may affect performance of the firm itself.

The second EO dimension is competitive aggressiveness, intended at aggressively respond to contestants’ actions and frequently employ entrepreneurial means to exploit opportunities (Lumpkin and Dess, 1996), obliging existing market niche and supports create newly market request (Lumpkin and Dess, 1996). High degree of competitive aggressively support the firm to beat competitors rapidly and make business adjustment accordingly (Porter, 1985).

The third dimension is innovativeness, a tendency to adopt, openness and liking of novel ideas, thinking or solutions either by an individual’s or organization that open to fresh openings. Similarly, reacting to high competition and developing new products, services, technologies, creating new business models, markets, moreover increase performances, defeat their competitors and provide value to their stakeholders (Jimenez and Sanz, 2011; Alexier and Van, 2016). The firm have a duty to detect opportunities through innovativeness and exploit the innovations to create value by developing new products and ideas (Rubera and Kirca, 2012; Banerjee and Soberman, 2013; Eisend and Gilliland, 2015).

Proactiveness is the fourth dimensions with high level of achievement motivation and take tasks earnestly (McClelland and Koestner, 1992; Lumpkin and Erdogan, 2014). Companies have to leave the
cosiness zone in order to appreciate noble change and business growth, to foresee future market changes and to initiate action by identifying and exploiting new market opportunities (Okhomina, 2010). Pro-activeness aids the firm to strategically abolishing operations which are in the mature or declining stages of life cycle (Venkatraman, 1989).

Risk taking is the fifth dimension of EO (Lumpkin and Dess, 2001), can be an individual level (Alessandro and Luca, 2015) or a firm-level trait (Thorsten et al., 2016) that differs by a firm’s stage of development (Lumpkin, 2001). This dimension requires firms to get ready in highly risk taking, unforeseen and uncertainty of possible extreme outcome (Desislava et al., 2011) by borrowing heavily of business endeavour ( Covin and Slevin, 1991) which may result in business collapse or loss (Lumpkin and Dess, 1996). According to Jain and Ali (2013), risk taking is a psychological variable reflecting a person’s ability to take calculated risks and achievable challenges.

Based on the problem statements, SGLCs should realigned with the spirit of entrepreneurial orientation dimensions for superior performance (Vij and Bedi, 2012; Van et al., 2013; Al-Nuiami et al., 2014; Schepers et al., 2014) which would contribute a positive effect on SGLCs business growth (Soininen et al., 2012; Alarape, 2013; Laukkanen et al., 2013). Further research on exploring the underlying process and its multidimensional construct would open the door of greater EO understanding toward SGLCs performance especially in Malaysia settings.

### 3.2. Hofstede cultural framework

Hofstede canvasses four cultural dimensions specifically power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity among global cultures (Sarah and Catherine, 2017). In Malaysia, Hofstede’s characterized Malays as low masculinity and high power distance (Hofstede, 1991) which means that Malay culture less emphasis on possessions, status, and display similarly to quality of life, the environment etc. while in a high power-distance, the top management made a decision and employees strictly adhered the instructions. However in another study, local academicians found that Malays too were high on masculinity dimension (Zabid et al., 1997).

Academicians also learned Malays were lower on individualism which personal achievement is not as important a group achievement (Abdollah, 1992). Further local academicians discovered Malays were also possessed high power distance (Roselina et al., 2002), collectivism (Roselina et al., 2002) and uncertainty avoidance (Roselina et al., 2002; Zabid et al., 1997) which refer to the willingness of Malay to obey and accept novelty. Nevertheless, Roselina et al., (2002) found individualism and uncertainty avoidance have a significant positive relationship with the participating style of leadership. Similarly, Dayang et al., (2015) also found that the most preferred leadership style in Malaysia is the participating style.

### 3.3. Schein’s Organizational Culture Framework

Internal integration and external adaptation are two important elements which turn out to be mandatory to the survival of SGLCs in dynamic business world (Schein, 1985). Both elements influence a set of beliefs system which is deeply implanted within personnel and is reflected in the behavior of firms. Internal integration deals with effective working relationships among members through communication &
shared meanings while external adaptation deals directly with four major criteria that become mandatory for companies to clearly pave a way for organization to succeed: (1) mission of the organization, (2) goal and target, (3) strategy to pursue the goals and (4) lastly establishing criteria in accomplishing it.

Based on Schein’s External dimension, it was revealed that five most critical business aspects commonly came across by SGLCs were the absence of Standard Operating Procedures (SOP); weakness in enforcing KPI throughout firms; no documented written statement on strategic planning, poor implementation of corporate governance practices and lastly, unnecessary political interference in SGLCs firms.

3.4. The Impact of EO and OC on Firm Performance

As a result, it yield five disadvantages to SGLCs. First it likely to produce Malay entrepreneurs with low level of professionalism but high level of secrecy, uniformity and conservatism (Effiezal et al., 2015). Second, it produced high level of power distance, uncertainty avoidance, low level of masculinity and individualism in the context of fragile corporate governance practices (Effiezal et al., 2015). Third, it created low obedience of legal requirements, low disclosure and less flexibility and positivity (Effiezal et al., 2015). Fourth, it shaped SGLCs without appropriate mission, goal and target which lastly, end up SGLCs in failure due to miscarriage strategy to pursue the goals. Finally, in the firms with higher level of Bumiputra would potentially revealed to experience higher risk (Effiezal et al., 2015). In summary, it is very essential for SGLCs management to convert it old-style passive image, nonactive to active or will continue to face the same unproductive issues in future (Muslim et al., 2012; Bhatt, 2016). The continuously failure of SGLCs would contribute impact to the state governments as SEDCs and its subsidiaries (SGLCs) are among major contributors in term of taxes collection, dividends, sponsorships and other benefits to the respective government states.

4. Research Questions

Research Question 1

Is there any positive or negative relationship between entrepreneurial orientation dimensions towards SGLCs long term performance?

Research Question 2

Is there any positive or negative relationship between organizational cultural dimensions towards SGLCs long term performance?

Research Question 3

Is the role of state government in SGLCs business affairs moderate entrepreneurial orientation’ five dimensions towards the long term performance of SGLCs?

Research Question 4

Is the role of state government in SGLCs business affairs moderate organizational culture dimensions towards the long term performance of SGLCs?
5. Purpose of the Study

EO studies were predominantly Western in nature (Covin and Slevin, 1989; Zahra and Covin, 1995; Lumpkin and Dess, 2001; Yates and Stephanie, 2016). A number of academic researchers questioned the applicability study of western practices of using similar framework to measure the degree of OC when dealings with developing countries. Therefore academicians strongly called for more investigation of the OC uniqueness in its actual settings and construct in developing countries (Yilmaz and Ergun, 2008).

Researchers discovered less than half a per cent of the total 7,482 articles published across nine high-impact journals over a 16-year period (1990 to 2006) were dealt with emerging economies (Bruton et al., 2008; Boris and Ratsimanetrimanana, 2015). In Asia, studies on EO is needed as it is still in early stage of development (Boris and Ratsimanetrimanana, 2015). The number of study related to Malaysian SGLCs were very disappointing except participated by a small number of academicians (Harry et al., 2010; Suraiya, 2011). As far as the researcher is concerned, very little study were carried out due to its low degree of attractiveness among local researchers to further endeavour its informative value.

Many researchers prefer three instead of five EO dimensions in their study but I argued that using 3 EO dimensions would provide only partial analysis and produce less impact to the body of knowledge on SGLCs itself. Therefore by studying five dimensions, could deliver comprehensive EO examination and confirm whether these five dimensions present and give impact of intensity to SGLGs. In this study, the researcher would use a complete five EO integrating three dimensions by Covin and Slevin (1989) and additional dimensions namely Autonomy and Competitive Aggressiveness developed by Lumpkin and Dess (1996) together with two organizational culture dimensions proposed by Schein namely internal integration and external adaptation.

6. Research Methods

The researcher has come forward to gather necessary and fruitful information pertaining to EO, OC, SGIBA and FP of SGLCs in Malaysia. In achieving this objective, the researcher has selected EO and OC as an independent variable. The third variable namely “State Government involvement in SGLCs business affairs (SGIBA)” is considered as the moderator variable. And lastly “SEDC subsidiary companies” acts as dependent variable.

A questionnaire was developed to present the dimensions based on the extent literature to collect the data. The questionnaire survey was divided into two parts namely section A and section B. Section A contained about demographic questions. Section B part 1 was related to entrepreneurial orientation. Part 2 related to organizational culture, part 3 related to the role of state government and lastly part 4 consists of questions specifically on firm performance.

Structural Equation Modeling (SEM) will be employed in estimating the models of entrepreneurial orientation, organizational culture and firm performance. The researcher choose SEM for its usefulness in supporting the proposed theory by extending standard multivariate analysis methods, including regression, handling Confirmatory Factor Analysis (CFA) to specify and test a factor analysis, correlation and analysis and estimating of variance and test the hypotheses for organizational culture as a moderator in the model.
7. Findings

**ENTREPRENEURIAL ORIENTATION**
- Autonomy
- Competitiveness
- Aggressiveness
- Innovativeness
- Proactiveness
- Risk
- Takings

**ORGANIZATIONAL CULTURE**
- Internal
  - Integration
- External
  - Adaptation

**SGLCs PERFORMANCE**
- Market Share Existing Business
- Financial Performance
- Overall Performance
- Number of Bumiputras hired
- Number of Bumiputra "Intrapreneurs" produced
- Numbers of branches or subsidiaries established

**THE ROLE OF STATES GOVERNMENT IN SGLCs BUSINESS AFFAIRS**

*Figure 01. Conceptual framework*
The expected findings based on the proposed framework are that:

1. EO helps SGLC to move business forward with supportive role of the state governments so that it can fulfill long term objective of hiring employees from bumiputera background. As a result, these employees would be able to learn all technical things about business and instil confidence and competence in the long run.

2. EO helps SGLC to move business forward with supportive role of the state governments so that it can produce talented and competence employees to be grown as intrapreneurs. As a result of this objective, would help the state government to produce intrapreneur who capable of piloting business and compete in open market.

3. EO helps SGLC to move business forward with supportive role of the state governments so that it can fulfil long term objective of strengthen its business foundation and gradually in the long run would establish existing business with branches or subsidiaries.

4. OC helps SGLC to move business forward with supportive and moderating role of state government by establishing and clearly steadfast to internal integration procedural where at the end would produce quality bumiputera background employees, gradually create quality intrapreneurs and finally would spread out branches and subsidiaries in the long run performance.

5. OC helps SGLCs to move business forward with supportive and moderating role of the state governments by establishing, and steadfast to the external adaptation principles which at the end with clear objectives of the enterprises would help firms to grows. As a results, it help in hiring bumiputera background employees, producing numbers of new intrapreneurs and lastly would spread businesses thru new branches and subsidiaries.

8. Conclusion

This research will fill the gap as required pertaining to the study of state level SGLCs and it would make up as a new contribution to the body of knowledge through integrating the existing fundamental of EO dimensions, organizational culture, state government involvement and discovery of weaknesses or cause of underperformance claim occur in SGLCs. Through this study, the moderating role of state governments’ role in the relationships between Entrepreneurial Orientation and Organizational Culture towards the performance of State Government Link Companies in Malaysia will be identified.

References


