Entrepreneurial Orientation and Government Intervention to Support Small Businesses Performance in Jordan

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Abstract

This study focused on examining entrepreneurial orientation (EO) around the globe in general and particularly in Jordan. It shed light on the small business performance in terms of government intervention and examined the relationship between entrepreneurial orientation and the performance of small businesses in Jordan, and the moderating effect of government intervention on the relationship. A survey method was employed where questionnaires were distributed to a sample comprising 384 entrepreneurs at one of the top entrepreneurial programs in Jordan called ERADA. The paper proposed a conceptual framework to survey the way entrepreneurial orientation (EO) affects small business performance in Jordan. It suggested further examination of the Jordanian government’s intervention on the relationship between entrepreneurial orientation (EO) and performance.

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1. Introduction

Due to the fact that entrepreneurship is considered to be a modern concept in the context of Jordanian business market, and there is increasing awareness of its importance and contribution to the community and the country at large, there is evidence of institutions and centers being set up to promote the entrepreneurial spirit, enhance its activities and practice it in the field. The researcher introduces the concept of entrepreneurship in this paper in the context of small businesses in Jordan, and it discusses how government intervention can promote it to achieve effective performance. Small businesses are deemed to play key role in the country’s social and economic development and are classified under SMEs, where two-third of the total SMEs in the country employ less than 19
employees (JEDCO, 2010). Nevertheless, despite their size, the total funding provided by the institutions investing in small businesses is approximately half a billion Jordanian dinars – such investment is appropriated towards financing, construction and development of projects numbering 134,000. These projects introduce job openings of over 200,000 (Economic and Social Council, 2015). More specifically, the private sector of the country employs 196,954 employees, of which 43,609 are working in SMEs. Stated from a different perspective, 60% of the private sector in Jordan constitutes SMEs and they employ 37% of the total workforce (UND Jordan Human Development Report, 2011).

In the context of small industrial sectors in Jordan, several studies have tried to identify the primary hindrances that exist and they revealed that such businesses are primarily dependent on traditional skills, low level technology in business management, and traditional marketing processes to promote their products and services (Magableh & Abuyageh, 2012; Alhiary, 2013). Also, small firms are susceptible to competitiveness that stem from foreign firms because of foreign firms high technology and their outstanding quality.

Added to this, owing to the absence of systematic information concerning the size and structure of small businesses, this makes their examination challenging. And despite the fact that there are a number of studies that were conducted by various agencies, they find the findings difficult to combine together to provide a deeper insight into the sector (Al-Mahrouq, 2010). In turn, the lack of specialized studies and data to minimize the literature gap and the lack of cooperation between institutions that relate to the facilities are some of the challenges that small businesses in Jordan face. These challenges have to be addressed as the long term success of small businesses in the country is important for its economy and thus, it is crucial to gather information of success factors entailed (Magableh & Abuyageh, 2012). To compound the matter further, according to Mohammed Rifai, a member of the Board of Directors of Amman Chamber Industry, 1550 enterprises employing 8000 workers did not renew their members in 2015 (Alrai newspaper, 2015). Indicating the lack of development strategy and industrial policy of small businesses that work towards enhancing its success in Jordan. Also, the extant policies have gone through many modifications after every successive government.

Generally speaking, public and private agencies in developed as well as developing nations have adopted entrepreneurial orientation (EO) to stress on significant factors including innovativeness, risk taking and proactiveness (Rauch, Wiklund, Lumpkin & Frese, 2009; Sang, Rogof & Foo,2015). Owing to the gaps that appear between concept and reality in the entrepreneurial orientation-performance relationship, it is crucial to examine the concept of EO in the context of small businesses in Jordan based on two primary reasons;

First, more information is required to provide clear aspects of EO; for instance, firms adopting innovation has to be aware of the way their activities affect their relationship with the various needs and wants and their customers. Added to this, it is crucial for entrepreneurs adopting this concept to possess the ability and awareness to recognize and exploit business opportunities in the market. A significant EO will eventually result in maximized entrepreneurship, competitive advantage and global competitiveness (Lee & Peterson, 2000; Cachon & Cotton, 2006).

Second, forming conclusions from the conceptual arguments, majority of quantitative studies carried out in different industries and national contexts supported the positive performance outcomes of
EO (Wiklund & Shepherd, 2005). Other studies showed that the strength of the EO-performance relationship is largely dependent on contextual moderators (Rauch et al., 2009; Saeed, Yousafzai & Engelen, 2014). Hence, this study attempts to shed light on such relationship by determining the level to which the relationship depends on moderators at the national level. According to (Saeed et al., 2014), advanced studies on the potential contributing factor of the relationship between EO and performance are called for. The researcher is also motivated by the prior studies’ findings to determine the presence of satisfaction among Jordanian small businesses in the entrepreneurial program.

2. Small business Performance

Studies in literature dedicated to performance shows that researchers did not reach a consensus as to the suitable measures of business performance indicators. Consequently, there exists a wide difference among performance measures (e.g., objective and subjective measures, financial and non-financial measures etc.) and this leads to a great diversity in the outcome of the relationship (Murphy, Trailer, Hill, 1996; Combas & Croack, 2005). In this regard, objective data is not easy to acquire as respondents are hesitant to release private information to the public (Dess & Priem, 1995). However, subjective evaluation of firm performance is readily volunteered by owners and managers although this lacks strong reliability (Wiklund & Shepherd, 2005). On the other hand, performance can be deemed to have multiple dimensions and hence it is more beneficial to combine various subjective and objective performance measures in order to accurately measure performance (Lumpkin & Dess, 1996; Yusuf, 2002).

3. Entrepreneurial Orientation

Firms that adopt EO are better performers compared to their non-adopting counterparts. Hence, EO constitutes the policies and practices that are the basis for entrepreneurial choices and activities (Mason, Floreani, Beltrame, Cappelletto, 2015). According to Carree and Thurik, (2005) entrepreneurial activity is a behavior that stresses on opportunities and (Covin, Selvin, Schultz, 1994) contended that EO has transformed into a central idea in the business enterprise and it has obtained a crucial measure of hypothetical and experimental consideration. In addition the EO dimensions have been highlighted and employed in literature of prior studies like Miller and Friesen, (1982) conceptualization. According to him, there are three EO dimensions and they are innovativeness, risk taking and proactiveness. Innovativeness refers to the predisposition to take part in creative and experimental activities via the launching of new products/services and technological leadership (R&D) in new processes. Meanwhile, risk-taking entails adopting actions of venturing into the unknown, investing through borrowing and committing considerable resources to risky ventures. Lastly, proactiveness refers to seeking opportunities and looking forward by introducing new products and services before competitors, and keeping track of future demand (Rauch et al., 2009).

Moreover, in a related study, Rauch et al., (2009) meta-analysis revealed that the EO-performance relationship significant differs based on national culture. EO was described by Wiklund and Shepherd, (2005) as having three dimensions namely innovativeness, proactiveness and risk-taking on the basis of
the premise that there is a positive relationship between EO and performance. In this regard, the greater the EO, the greater will be the performance of the firm. As for the dimensions, Rauch et al., (2009) stated that prior empirical studies showed that the three EO dimensions (innovativeness, risk-taking and proactiveness) hold equal importance in terms of shedding light on performance. The three dimensions were adopted by Covin and Stevin, (1989) as a scale measure to determine the level of which a firm is proactive, innovative and risk-taker. In Lumpkin and Dess, (1996) study, the three EO dimensions showed independent variance.

Furthermore, EO is distinct from entrepreneurship, where the former hinges on the way entrepreneurs employ entrepreneurship throughout the achievement of their career. On the other hand, entrepreneurship is concentrated on new market, new goods/services. EO, according to Lumpkin and Dess, (1996), is a process construct that refers to methods, practices and styles of decision-making employed by management.

Despite the argument concerning the EO dimensionality (Lumpkin and Dess, 1996), its uni-dimensionality has been argued by most of studies dedicated to the topic (Covin et al., 2006; Rauch et al., 2009). There have also been different attitudes that have been adopted to whether or not different EO dimensions are independent or dependent on each other. More specifically, Covin and Slevin (1989) stated that different EO dimensions may arise in different integrations, and hence, the construct will appear to have several dimensions. The fundamental evidence that forms the basis of this argument is the relationship between each of the EO dimensions and entrepreneurial outcomes. In other words, risk-taking may have a curved relationship with performance, while the other two (innovation and proactiveness) may have a positive relationship with the same (Kreiser et al., 2010; Tang & Koveos, 2011)

4. Relationship between Entrepreneurial Orientation and Performance

The entrepreneurship-firm performance relationship has increasingly been the topic of discussion among studies dedicated to organizational and entrepreneurial literature in the past twenty years. The relationship’s magnitude appears to differ from one study to the next in that while some studies revealed businesses that adopt EO to display better performance (Wales, Gupta, & Moussa, 2013; Wiklund & Shepherd, 2005), and most studies of this caliber showed a positive relationship, the strength of the relationship is not the same throughout studies and contexts (Wales, Gupta, & Moussa, 2013). Other studies revealed lower EO-performance correlations (Dimitratos et al., 2004; William and Sinkula, 2009), while some others did not reveal a significant relationship between the two (George et al., 2001; Tang & Koveos, 2004). Furthermore, studies have also found that the EO-performance relationship takes on an inverted U shape rather than a straightforward relationship (Bhuion et al., 2005) indicating that a greater EO is not always required in some markets and contexts. Based on the above discussed literature, it is evident that variations exist in the relationship between EO and performance that may be attributable to the difference in the EO scales employed, methodology adopted, opinion concerning the moderating impact and varying performance indicators.

According to the findings in literature, the following hypotheses for entrepreneurial dimensions are proposed to be tested
**H1a:** there is a positive relationship between innovativeness and small business performance.

**H1b:** there is a positive relationship between risk taking and small business performance.

**H1c:** there is a positive relationship between proactiveness and small business performance.

To sum up, literature indicates that the EO-performance relationship is affected by the effects of different organizational and industrial environment elements. In this regard, Venkatraman, (1989) proposed the moderating effects, mediating effects, independent effects and interaction effects in models to examine the effects of third variables for the purpose of shedding light on contingency relationships. The research framework of the study is depicted in Figure 1.

5. Entrepreneurship adoption and government intervention

Despite the considerable growth of small businesses since the 1970s, the rate of entrepreneurial activity in Jordan is of moderate level as compared to its counterpart nations. This urged the government of Jordan to adopt steps to tackle the barriers towards entrepreneurship in terms of different aspects; political, legal and cultural. This begs the question, “What is the public policy intervention mechanism?” – accordingly, this study attempts to highlight the level of the impact on entrepreneurs in terms of their backgrounds and infrastructure in order for them to take part in entrepreneurial activities and to perform well. This will ultimately lead to enhanced national economy.

In relation to this, the government has key role on promoting entrepreneurship notwithstanding the level of entrepreneurship. Studies dedicated to entrepreneurial orientation showed that government interventions, specifically legislations and regulations, are among the determinants of promoting entrepreneurship (Vossenberg, 2013). Some studies have examined the way regional environments affect entrepreneurial actions by identifying principal factors like societal rules, culture, conditions of the economy, and government procedure (Shapero & Sokol, 1982). On a similar note, Davis and Paul (2012) contended that government enactments and legitimizations are among the major effects and significant drivers of the promotion of EO. In the context of entrepreneurship, Song et al., (2015) examined exterior factors that influence entrepreneurial adoption flow decision among small businesses. They found government interventions, in light of regulations to be among the factors that influence SMEs to adopt new entrepreneurial activities. In another related study, Vesper, (1980) revealed that government interventions (support) leads to a higher inclination among SMEs to perform better in the industry sector.

The above evidence indicates that government intervention is a significant factor that affects entrepreneurship adoption – in other words, government interventions like subsidies and reduction of taxes should be focused to expedite small business performance. In this regard, intervention refers to the influence of the government institutions on businesses (Dimitratos et al., 2004). In Jordan, the effect of interventions on entrepreneurship adoption is largely unexplored although some studies attempted to examine the moderating effects of government interventions in other contexts; for instance, (Shariff, Peou & Ali 2010; Ruslan, Senin & Soehod, 2014)

Empirical studies investigating the relationship between institutional contextual factors and entrepreneurial activities are still few and far between. This study responds to this gap in literature by focusing on government interventions in Jordan. Relevant studies who are of the same caliber but
different contexts include Shapero and Sokol, (1982) who focused on the regulatory measurement focusing on laws, regulations and policies, and related them to entrepreneurial activities, after which they were publicized by the government within an area.

A more concrete viewpoint comes from the institutional theory positing that informal institutions like national culture and formal institutions like economic, political and regulatory environments antecede the context wherein strategic plans are implemented (Bruton, Ahlstrom & Li, 2010). Interventions from the government affect the outcomes of businesses and the uncertainties over the availability of capital, government-backed investments and financial guarantee programs influence businesses. Aside from providing direct funds, fiscal measures such as tax reductions or exemptions also play a role. Positive government intervention shows a consensus throughout the region concerning the best practices of entrepreneurial activities implementation – in other words, entrepreneurs who know how to employ strategies that are not as risky are able to cope with competitiveness in the market. As for operational uncertainty, good government intervention indicates that if entrepreneurs within an area views entrepreneurial activities as a positive thing, they will be more inclined towards them and are more likely to receive support.

Moreover, Vij and Bedi (2012) stressed that organizational and environmental factors should be examined for their moderating effects on the relationship between EO and performance. Therefore, in this study, government intervention was selected to be examined for its moderating impact to shed deeper insight into the EO-performance relationship. Building on this argument, two-way interactions of EO and government intervention are examined, and government intervention is hypothesized to moderate the EO-performance relationship. Based on these hypothesized two-way interaction, the following hypotheses are proposed:

$H2a.$ Government intervention moderates the relationship between innovativeness and small business performance

$H2b.$ government intervention moderates the relationship between risk taking and small business performance

$H2c.$ government intervention moderates the relationship between proactiveness and small business performance

6. Proposed conceptual framework

Developing the framework based on (Wiklund and Shepherd, 2005; Ireland et al., 2009, Kreiser and Davis, 2010; and Grande et al., 2011) studies, the EO-performance relationship adopted in this study includes multivariate relationship that considers government intervention as a moderating variable that is related to external environment or organizational environment. In other words, the main effect between EO and performance variables is examined along with the relationship’s interaction effect with the moderating variable.

According to the contingency theory, the relationship between two variables is contingent on the level of a third one and introducing moderators into bivariate relationships minimizes the possibility of erroneous inferences and enables accurate and specific understanding Wiklund and Shepherd, (2005) concerning contingency relationships. Owing to its focus on performance implications, the contingency
theory has been the basis of the development of management sciences (Venkatraman, 1989). Hence, in order to distinguish between the findings among studies, the potential moderators of the EO-performance relationship is examined in this study as recommended by (Rauch et al., 2009).

As mentioned, EO determinants namely innovativeness, risk taking and proactiveness showed consistent effects on performance in literature. In this study, the influence of government intervention towards the EO dimensions-performance relationship is examined as the aim behind the former is to promote entrepreneurship rather than just to influence the performance of small businesses. Therefore, the conceptual framework is proposed and presented in Figure 1.

Fig. 1. Research Framework

7. Methodology

Owing to the elusive aspect of collecting a list of small business population in Jordan, the sampling frame for the present study was requested from the ERADA (enhancement of production center) database that organizes the portfolio of 4906 entrepreneurial businesses and is acknowledged to be the top Training consultant, and provider of feasibility studies for small Jordanian businesses. The study sample consists of 2571 small businesses located in the central region of Jordan in the cities of Amman, Albalqa and Azarqa. The middle region was selected as 45% of the overall small businesses are located in the region. A total sample of 384 was selected from a population of 2571, to which a self-administered questionnaire was distributed to. Respondents were requested to indicate the level of their agreement or disagreement to the items provided that are gauged through a five-point numerical scale. The scale ranges from 1 depicting strongly disagree to 5 depicting strongly agree. The questionnaire items were adopted from prior studies and modified to suit the context of the study. The data collected was analyzed through SPSS.

8. Expected Findings

The study findings are expected to support the proposed hypotheses concerning entrepreneurial orientation and regarding the moderating effects of government intervention. The latter is expected as government interventions like subsidies, taxes and monitoring work towards the promotion of innovation adoption. In the present study, an insight is expected to provide the connections between entrepreneurial orientation and performance, as moderated by government intervention. Specifically, in
the context of Jordanian entrepreneurs, the difficulty lies in the development of innovative policies and programs that enable young Jordanians to change their mindset into being employed by the government to being self-employed.

9. Conclusion

In this study, the researcher proposes a conceptual framework for future studies for the relationship between EO-firm performances among small businesses in Jordan, as this will be a great contribution to literature considering this type of studies is still few and far between. The framework may be invaluable to providing an insight into entrepreneurial adoption, and the effect of government intervention on the performance of small business firms, and the dimensions of entrepreneurial orientation. The present study is a pioneering study of its kind to use the ERADA database in Jordan – a database that contains information concerning nascent entrepreneurs and tests predictions of small business performance across the attitude, thinking and networks of entrepreneurs. Such predictors have theoretical and practice implications and thus, the present study attempts to delve into the content and structure of entrepreneurial cognitive aspects in Jordan, a country that has great entrepreneurship potential.

References


