

ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN JAPAN

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ABSTRACT

This study seeks to enhance the understanding of Entrepreneurial Orientation (EO), Business Performance relationship framework in Japan. Drawing on key concepts from entrepreneurship theory, the study empirically investigated the relationship between EO dimensions with business performance indicators of Small and Medium Scale Enterprises (SMEs) operating in the manufacturing sector at Shizuoka Prefecture of Japan (SPJ). Three main dimensions of innovativeness, proactiveness, and risk taking were applied. Sales growth, employment growth, market share growth, and profit growth were used to predict business performance. Interviews and mail survey were main research instruments and regression analysis was applied in order to determine the relationship among EO dimensions and business performance variables. Findings indicated that proactiveness, innovativeness, risk taking and overall EO have significant positive relationship with market share growth. Further, innovativeness and overall EO were positively and significantly related to sales growth and profit growth while positive significant relationship was shown between risk taking and employment growth.

Keywords: Entrepreneurial Orientation, Business Performance, Small & Medium Scale Enterprises, Japan

INTRODUCTION

SMEs support the backbone of the Japanese economy (Ministry of Enterprise Trade and Industry (METI), 2007). There are approximately 4.3 million small and medium enterprises (SMEs) in Japan constituting 99.7 percent of all companies, and roughly 28 million employees working at SMEs, who account for 71 percent of all workers. Japan's SMEs come in thousands of varieties, ranging from world-leading technology firms to the neighborhood candy stores; these small- and medium-sized businesses form the real foundation of the Japanese economy (Small and Medium Enterprise Agency, 2006). SMEs are very flexible due to their small scale compared to big companies, and their inherent mobility and adaptability are becoming increasingly significant while recent economic environment is undergoing a rapid change. Interestingly, SMEs, including leading-edge industries which are expected to drive Japan forwards in the future may make full use of their competitive advantage so as not to fall behind other countries. However, in the continuing severe economic situation, many of these enterprises are suffering under extremely difficult administrative conditions having great skills, shortage in capital, financial and human resources as well as in managerial and technological knowledge. These deficiencies often force them to work below the standards and market requirements (Small Enterprise Agency, 2006; Ruth, 2006). At the same time, small Japanese manufacturers alike are struggling to adapt to a period of weak domestic demand, increased competition at home and abroad, and

the emergence of Japan into a high-cost economy. Helms et. al., (2003) agree that small, innovative companies can offer the catalyst the Japanese economy needs (Futagami and Helms, 2009).

The formulation of the EO model and the original empirical tests were mainly done in the North American context (Lumpkin and Dess, 1996). Further, there has been limited research devoted to the field of entrepreneurship and growing interest of EO of SMEs. The Japanese economy was based on the joint cooperation of the entire supply chain of manufacturers, suppliers, distributors, and banks. These big corporations offered guarantees of lifetime employment for their employees. Japan's economy needs growth from innovation, both from entrepreneurs and smaller business. Ongoing efforts by the government and amendment of the Japanese Commercial Code are creating a more comfortable environment for entrepreneurs. A growing self-awareness of the individual and the changing definition of success among the Japanese are rapidly converting them to become more risk tolerant and independent. All these combined changes set the stage for entrepreneurship (Helms and Marilyn, 2003). Few would argue with Japan's success in manufacturing excellence that exemplifies dedication to speed and quality are primarily apparent in their world-class multinationals rather in the small business sector. However many successful small business entrepreneurs put into practice that encourage innovation and risk taking (Lee and Peterson, 2000).

The current research was performed for the selected established manufacturing SMEs in Shizuoka Prefecture of Japan (SPJ). Shizuoka is home for both to world-leading companies and a large number of small-to-medium enterprises (SMEs). In 2008, Shizuoka had the largest number of outside businesses operating offices, factories, etc., within it, and the largest industrial location area among all prefectures in Japan. And in terms of foreign firms operating business facilities in the prefecture, the total for Shizuoka is the highest in Japan since 1989 (Department of Commerce, Industry and Labor, Shizuoka Prefectural Government, 2009).

Therefore, it is important to better understand the degree of EO and its relationship with business performance of SMEs in non-western setting. The study was motivated by several critical observations: 1) only few empirical studies focused on the relationship between EO and business performance of SMEs in Japan. 2) Existing empirical studies examined were found biased results in different country settings and 3) Application of both unidimensional and multidimensional concepts of EO with multiple indicators of business performance approach in the same study was limited. Specifically, this research attempts to contribute by addressing the research question as "To what extent do EO and the dimensions of proactiveness, innovativeness, and risk taking impact business performance of manufacturing SMEs in SPJ?"

LITERATURE REVIEW

There is abundant literature demonstrating that EO has an impact on performance. Lee and Lim (2009) adopted innovativeness, risk taking, autonomy, and competitive aggressiveness dimensions proposed by Lumpkin and Dess (1996) to examine the relationship between each dimension to business performance in Japanese food restaurants in South Korea. This study suggests that EO dimensions have positive impact on business performance. Wiklund and Shepherd (2005) applied a configurationally approach to investigate the relationship between EO dimensions of innovativeness, risk taking, and proactiveness to measure small firms' performance in 413 Swedish firms. They studied the effect of financial capital and environment as moderators of EO. The results showed that EO positively influences small

business performance. Keh et al., (2007) examined the relationship between EO and market information on performance of SMEs in Singapore. They found that EO plays an important role in enhancing firm performance and it has both direct and indirect effects on firm performance. Also information acquisition is not positively related to firm performance, but information utilization has a positive impact on firm performance. Innovation has become the focal point of the entrepreneurship since Joseph Schumpeter emphasized on the concept. Schumpeter (1934) argues that innovation is an opportunity for entrepreneurial firms to gain rents through the temporary establishment of a monopoly and considers continuous innovation activity as the key source of long-term entrepreneurial success. Entrepreneurial innovation can be defined as the “willingness to support creatively and experimentation in introducing new products/services, technological leadership and R&D in developing new processes” (Lumpkin and Dess, 2001).

Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage. Proactive companies can create first-mover advantage, target premium market segments, charge high prices, and “skim” the market ahead of competitors (Zahra and Covin, 1995).

Risk-taking is one of the most commonly used concepts by researchers to describe entrepreneurship (Dean et al., 1993). John Stuart Mill argued that risk taking was the paramount attribute of entrepreneurs” (Kreiser et al., 2002). Entrepreneurs and entrepreneurial firms are seen to manage the risks better by focusing on lower-risk market endeavors with developing various new product and service alternatives targeted to the different market segments or niches (Morris and Kuratko, 2002).

These arguments suggest the following hypothesis:

H1: Innovativeness, proactiveness, risk taking, and overall Entrepreneurial Orientation have significant positive relationship with sales growth of SMEs in SPJ

H2: Innovativeness, proactiveness, risk taking, and overall Entrepreneurial Orientation have significant positive relationship with employment growth of SMEs in SPJ

H3: Innovativeness, proactiveness, risk taking, and overall Entrepreneurial Orientation have significant positive relationship with market share growth of SMEs in SPJ

H4: Innovativeness, proactiveness, risk taking, and overall Entrepreneurial Orientation have significant positive relationship with profit growth of SMEs in SPJ

RESEARCH METHOD

Target Sample and Data Collection

Target sample was selected through the Small Business Cooperation of Shizuoka Prefecture of Japan (SBCSPJ) and the following criteria were used to select the sample:

- (1) All selected SMEs were in the manufacturing sector
- (2) SMEs established more than five years

Mail survey and interviews were selected as primary data collection instruments because SPJ is a large area and it was difficult and time consuming to visit and make interview with the selected sample. A total of 178 SMEs were randomly selected and questionnaires were sent through regular mail service. Respondents were given four weeks to respond to the questionnaire. Out of these, 83 questionnaires were returned and one was rejected because of incompleteness. This gave a total of 82 usable responses, yielding a response rate of 46.6%.

Measures

All measures of EO dimensions and business performance were drawn from the literature. Proactiveness, innovativeness, and risk taking dimensions have been documented at high levels of reliability and validity in numerous studies (e.g., Kreiser, et al., 2002). EO is measured by nine items (Khandwalla, 1977; Miller 1983; Covin and Slevin, 1989) by using five point likert- scales ranging from "Strongly disagree" (1) to "Strongly agree" (5). In order to measure the business performance, both archival and self reported information were obtained. Financial information of sales, employment and profit from year 2006 to 2008 were obtained through SBCSPJ Annual Reports.

Analysis of data

Quantitative method was used to analyze data. At first, the degree of EO of SMEs was determined by the mean value. Significance of the relationship among variables was established based on the results of Pearson correlation analysis. Reliability analysis was performed in order to ensure the internal consistency and reliability of measures. Cronbach's alpha was calculated to confirm the reliability of constructs. As the coefficient alpha close or exceeds the 0.70 level, the reliability of the measurements were achieved as recommended by Nunnally (1978).

FINDINGS

Profile of Respondents

Majority of owner/managers (40%) are in the ages between 56 to 65 years. Higher level of education was reported among most owner/managers that indicate 74% have university degrees, and 24% have high school or college education. Majority, 39% of respondents have previous working experience of 2 to 4 years and 22% of the respondents reported more than 10 years experience. It is note that approximately 70% of respondents are managers of SMEs and only 15% were both founders and managers. The major manufacturing industries in the sample include food and beverages which represent 21% while 13% of SMEs belongs to electronic equipments and 11% were in metal industry. Approximately 50% of SMEs are in operation for more than 50 years, while 33% of firms were between the ages of 31 to 50 years. In terms of ownership, only 5% of SMEs were sole proprietorship and 1% as partnership, majority of 94% was limited liability companies. In addition, majority of 27% of the sampled firms employed on 1 to 20 employees, 26% firms represents 21 to 50 employees and almost 10% of SMEs has more than 150 employees.

Descriptive statistics of EO and business performance of manufacturing SMEs in SPJ

Table 1. Descriptive Statistics

<i>Variables</i>	<i>Mean</i>	<i>Standard Deviation</i>
Proactiveness	3.58	0.59
Profit growth	3.60	0.47
Risk taking	3.32	0.36
Innovativeness	3.50	0.34
Overall EO	3.35	1.36
Sales growth	2.61	1.56
Employment growth	2.73	0.96
Market share growth	3.55	1.19

Table 1 reports the descriptive statistics of variables such as the mean and the standard deviation. The findings indicate that the firms are more innovative (3.60) and they focus on proactiveness dimension (3.60) and overall EO (3.60). Profit growth has the highest mean value (3.55) among the performance indicators.

Hypotheses Testing

Hypotheses H1 predicted that innovativeness, proactiveness, risk taking, and overall Entrepreneurial orientation have significant positive relationship with sales growth of SMEs in SPJ. The findings indicate that innovativeness ($r=0.33$) ($p < .01$) and overall EO ($r = 0.26$) ($p < .01$) were positively and significantly related to sales growth. Proactiveness ($r=0.18$) was moderately significant positive relationship with sales growth and risk taking ($r = 0.02$) have weak relationship with sales growth. Therefore H1 is approximately supported.

Hypothesis H2 suggested that innovativeness, proactiveness, risk taking, and overall Entrepreneurial orientation have significant positive relationship with employment growth of SMEs in SPJ. The findings indicate that innovativeness ($r = 0.05$), and proactiveness ($r = 0.08$) has a positive relationship with employment growth but not significant. There is a positive significant relationship between risk taking ($r = 0.27$) ($p < .01$) and employment growth, while EO as a moderate significant correlations with employment growth ($r = 0.16$). Therefore, H2 is partially supported.

Hypothesis H3 denoted that Innovativeness, proactiveness, risk taking, and overall Entrepreneurial orientation have significant positive relationship with market share growth of SMEs in SPJ. Innovativeness ($\beta= 0.29$) ($p < .01$), proactiveness ($r = 0.28$) ($p < .01$) risk taking ($r = 0.33$) ($p < .01$), and overall EO ($r = 0.41$) ($p < .001$) were positively and significantly related to market share growth. Hence H3 is supported.

Hypothesis H4 specified that innovativeness, proactiveness, risk taking, and overall Entrepreneurial orientation have significant positive relationship with profit growth of SMEs in SPJ. Results of the regression analysis found that overall EO ($r = 0.25$) ($p < .05$) and innovativeness ($r = 0.26$) ($p < .05$) have a positive and significant correlations with profit growth. Proactiveness has moderately significant and positive relationship with profit growth ($r = 0.15$) and risk taking shows a weak positive relationship with the growth of profit ($r = 0.14$). Thus, H4 is partially supported.

DISCUSSION AND CONCLUSION

The findings suggest that the degrees of entrepreneurial orientation of SMEs are higher including innovativeness and proactiveness. Risk taking dimension was slightly higher than the average level. This indicates that most SMEs are not likely to assume high risk projects. Helms and Marilyn (2003) confirms that Japanese society is slowly starting to change its attitudes toward risk. EO was found to be statistically important in explaining sales growth, market share growth, and profit of SMEs in SPJ. So, it appears that business performance of SMEs could be enhanced as a result of innovative, proactive and risk-taking posture assumed by owner/managers. Innovativeness dimension also showed significant link to sales growth, market share growth and profit. The finding strongly agreeable with previous studies have done in other parts of the world that emphasized innovativeness directly impact on performance (Kresier et al., 2002; Lee and Lim, 2009). Proactiveness was significantly correlated with market share growth, while moderately significant with sales growth as well as profit growth but employment growth showed no significant relationship.

Further, market share growth, and employment growth were positive and significantly correlated with risk taking. No significant relationship were found sales growth and profit with risk taking suggest that firm's sales and profit may slightly increase as a result of risk taking. The result confirms the previous findings that risk taking positively impact on business performance (Wang, 2008; and Lee and Lim, 2009). The study also reconfirms that independent effect of each EO dimension on performance which contributes more in-depth knowledge in the differential relationship of innovativeness, proactiveness and risk taking with business performance (Covin et al., 2006; George, 2006).

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