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Entrepreneurial Orientation, Strategic Management Accounting Practices, Innovation and Firm Performance: Craft Industry Perspective

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Abstract—Globalization in new era changes business environment in various dimensions. Organizational integration factor, business strategy and innovation in technology were slowly becoming the major strategic issues which have significant impacts on organizations. The purpose of this paper is to scrutinize the issues coming in the way of small medium enterprises (SMEs) and firm performances within the craft industry development drawn on to the influence factors that enhances its performance, and to further provide an a framework to examine SMEs performances. Craft industry is a heritage industry which is considered as one of the major contributors in the manufacturing sector and also to the development of SMEs in most countries. However, it's potential is always underestimated. Relevant literature on entrepreneur, strategic management accounting practices, innovation and firm performance in SMEs within the craft industry are reviewed. In this paper, a framework of firm performance and factors affecting it is proposed that relies on resource-based view theory. A framework is developed to explore the premise for the research. Based on the suggested framework, entrepreneurial orientation, strategic management accounting and innovation are identified as factors affecting firm performance while the firm performance considers both financial and non-financial perspectives. The proposed framework allows the identification of the triggers driving SMEs performances and the capture of a holistic firm performance within the craft industry.

Keywords— firm performance, entrepreneurial orientation, strategic management accounting, innovation

I. Introduction

Small Medium Enterprise (SMEs) have played an important role and made a significant economic contribution of more than a quarter of all manufacturing output to the Malaysian national economy [1]. According to [2] and [3], the contribution to the Malaysian national economy, shows that the SMEs are key industry players in the country's overall economic growth. According to [2] and [4], SMEs provide huge employment opportunities, stimulate competition, give support to large companies and act as seed-bed from which large companies grow. As a backbone of the country's economy, SMEs need to be more aggressive to improve their productivity and competitiveness [5]. Therefore, in order to face challenges successfully, SMEs require support networks to help them improve its management capacity, productivity and quality [5]. According to [4], SMEs can generate employment, enhance quality of human resources, nurture a culture of entrepreneurship, support a large scale industries and open new business opportunities.

As suggested by [6], the potential of Malaysian SMEs is to contribute significantly to economic growth is demonstrated by their contribution to output, their numbers (half a million) and substantial employment generation (labor-intensive). As pointed out by [2], small firms make a significant contribution to the gross domestic product (GDP). Further, [7] stated that SMEs are a key source of and outlet for entrepreneurial creativity and ideas. Consequently, the performance of the SMEs sector is closely associated with the performance of the nation [8]. Contribution to economic growth for the country will achieve its target of becoming a high-income nation via more dynamic entrepreneurs [9]. As suggested by [9], SMEs performance need a creative and innovative entrepreneurs, without them

Malaysia will never realize developed and high-income nation status.

Definitions of SMEs [10] in each of the respective sectors are based on the Annual Sales Turnover or Number of Full-Time Employees. According to [2], this will facilitate the country's transformation to a high income nation through the initiatives under the SME Master plan. The proposal is to raise the qualifying threshold for sales turnover and employment of SMEs for all economic sectors [11] as shown in the Table 1.

Table 1. Definition of SME in Malaysia effective on January 1, 2014

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 or full-time employees less than 5	Sales turnover from RM300,000 to less than RM15 million or employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million or employees from 75 to not exceeding 200
Services and other sectors	Sales turnover of less than RM300,000 or employees less than 5	Sales turnover from RM300,000 to less than RM3 million or employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million or employees from 30 to not exceeding 75

(Source: National SME Development Council, 2013)

In Malaysia, the craft industry can be relied upon as one of the contributors to the country's economic development [4]. Malaysian craft is a combination of old and new elements, culture and economy, traditional and contemporary and form and functionality. Malaysia's multi-racial population brings diversity to the multi-cultural facet of the country and the craft industry is one of the oldest industries in Malaysia which was established more than 80 decades [12]. The industry is known to produce variety of craft based products such as textiles, handicrafts, paintings, garments, batik, curtains and bed sheet. Even though, the industry is rather small in size and scattered all over the country, their products especially textile and crafts are able to help the performance of tourism industry [13] and able to provide job and business opportunities [12]. The need for creativity and flexibility of small firms

is also acknowledged in the context of sustainability [14]. Creative Industry tends to be unique because it relies on people's creativity, skills and talents. This is why creative industries are not easy to be developed through replication strategy [15].

SME is considered as one of the outstanding industry since this kind of industry can not only absorb the larger sales force compared with the larger industry, but it can also provide the most significant contribution to GDP [16]. Craft is one of the work of art and becomes the former heritage of Malaysia and it is adored by many countries. Manufacturing including craft industry is the major sector in Malaysia besides service, mining and agricultural [4]. Regionally, this industry has lost its competitive advantage to neighboring countries, especially Thailand, Indonesia, China and Vietnam who also exert a great challenge to Malaysian crafters [17]. The growth of craft industry and technology aspects which belong to former cultural heritage predated from the palace community then expanded into the outside of palace environment, and now it becomes the national culture based main industry [18]. Possibly due to its primitive nature such as a society characterized by a low level of economic complexity [19], studies on economic and entrepreneurial dimensions of the industry are not much seen in the last few decades [12].

A. Problem Statement

Manufacturing sector including SMEs in the Craft Industry still reports stagnated and/ or reduced profits, low sales growth, low market share, low return on investment and low value for money which has made them less competitive on both local and international markets [20]. There was little evidence on different performance measurement used and performance reporting systems among entrepreneurs. However, quite a few of them are still facing a variety of challenges and obstacles that deter further expansion of their businesses. In many countries the SMEs are facing severe and numerous challenges in a globalized environment, including lack of financing, low productivity, and lack of managerial capabilities access to management and technology, and a heavy regulatory burden [21] and [22]. In the Malaysian context, SMEs face many similar challenges, which have been highlighted by National SME Development Council for SME Master Plan, 2012-2020 [23] and [24] and others included lack of access to loans; limited knowledge of innovation, limited adoption of technology; lack of human resources; and competition from MNCs and globalization. At the operational level, SMEs have to contend with hindrances in the form of rising raw materials and input costs, increasing overhead costs as well as cash flow restraints [2]. Lack of research were reported on problems encountered by SMEs such as inability or difficulty in finding access to financing and working capital [25], low returns in research and development (R&D) due to lack of entrepreneurial skills because of the hefty amount of

investments required to realize it [26]. Lack of knowledge among entrepreneurs in the utilization of technology which is still relatively low poses and become another problem or serves as a constraint for entrepreneurs to move forward [27] and [28]. Lack of research in accounting knowledge has affected the solid accounting team to enhance their business growth and sustainability [29] and [30]. In the Craft Industry, there is also limited research on firm's performance in building the capacity and capability of entrepreneur to achieve success, growth and competitiveness of its performance measurement [31]. The problem with these firms is that of management best practices and entrepreneur characteristic that are performed by the SMEs in the craft industry.

B. Purpose

The purpose of this paper is to present factors that enhance SMEs performances in the Craft Industry. Through identifying the factors that consist of entrepreneurial orientation, strategic management practices and innovation, it will enable a better understanding of what it takes to enhance the skills needed of current business practices and improve business performance to be at par and better than other firms. The resource-based view (RBV) theory is integrated with Hofstede's theory (culture dimension: entrepreneurship and management practices) to provide the premise for this paper. The resources of firm performance is explained in terms of entrepreneurial orientation, strategic management accounting practices and innovation in the Craft Industry [32] as these factors are discovered to enhance the firm's performance.

C. Significance Contribution of the Study

There are several significant contributions from this paper. First, this paper will provide a better understanding of specific factors which include the importance of adopting strategic management accounting practices that can enhance entrepreneurs and SMEs performances specifically within the craft industry. Second, the paper also discusses what is expected of future entrepreneurs, thus will contribute to their understanding of the requisite skills for success in terms of entrepreneurial orientation and innovation. Knowledge in this area would provide those in the craft industry a way to achieve higher performance. In essence, SMEs entrepreneurs would be able to improve their knowledge in managing business and would be able to enhance their skills and capabilities in the technical and managerial levels which will contribute to superior performance of the firms and industry.

II. Literature Review

A. Entrepreneurial Orientation

Entrepreneurial Orientation (EO) has recently been recognized as one of the most important factors for firms growth and profitability [33].

Entrepreneurship, according to [34], is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities. Further to that, [34] and [35] define entrepreneurs as individuals who exploit market opportunity through technical and/or organizational innovation as well as risk takers. According to [36], entrepreneur is a person who already habitually creates and innovates in order to build up something in order to create a recognized value based on perceived opportunities. [37] and [38] stated that someone who is able to take opportunities, take risk and develops a new business to gain profit. [39] and [33] found that innovative, proactive and risk-taking in EO and firm performance have a strong relationship, indicating positive implications in entrepreneurial processes on firm growth and performance. EO needs to be considered by firms which want to move into a more competitive business environment. However, a study by [40] discovered that the positive implications on EO with firm performance exists in specific context and vary independently of each other in a given organizational context.

B. Innovations

Innovation at the organizational level is defined as new product, service, ideas, technology, process, and structure and includes their generation, acceptance, adoption, or implementation [41] and [42]. Most researchers use the terms innovation and innovativeness interchangeably based on whether the study is investigating the end result of the innovation process or the process of innovation itself [43] and [42]. Innovativeness can be defined as the generation, acceptance and implementation of innovations [44]. According to [40], innovativeness shows the extent to which the firm is geared to supporting new ideas, novelty, and creative processes resulting in new and innovative products, technology, or processes. The importance of innovation is established as a necessary ingredient for firms simply wanting to remain competitive [45] or pursue long-term advantages. Innovation is concerned with the development of a new product or process, or the improvement of an existing product or process. The results obtained from past studies have shown that innovation plays a major role in sustaining competitive advantage for industries [46].

C. Strategic Management Accounting Practices

Strategic management accounting (SMA) is defined as a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information [47]. SMA is the provision of information to support strategic decisions in the long term, and performance by providing internal and external information for strategic purposes such as

defining the strategic position, formulating strategy and controlling the performance [48] and [49].

Strategic management accounting have various strategic analytical tools which include benchmarking, balanced scorecards, value chain analysis, and Porter's value chain model [50]. As reported in the study by [51], increasing number of organizations are beginning to use practices of SMA without necessarily recognizing that term. As a primary producer, their advisors are increasingly using external as well as internal data, financial and non-financial in making strategic decisions that emphasized customer focused, more competitive and concerned with establishing a strategic position in globalized markets [50].

The evident transition is through the growing incidence of accounting tools such as benchmarking, value chain analysis, and balanced scorecards in strategic planning and decision making besides target costs and wealth management [52]. Therefore, the trend towards the adoption of strategic approach in management accounting is seen as a tool to face the current business developments [50]. Further to that, [50] stated that strategic management accounting and strategic cost management can be used to achieve an efficient and effective control of costs and supply management as well as to assist in the performance of its functions in the long run[50].

[53]investigates how hotels in transiting economy could improve performance and gain competitive advantage by adopting SMA techniques. [54]in his paper discusses the most widely adopted performance management frameworks and the Balanced Scorecard. These methods are used to explain how strategic control and performance measurement can aid in the implementation of strategy and the improvement of organizational performance. [52]and [53]developed the cost analysis model and the use of the information provided by the management and cost accounting in the implementation of strategies to increase the performance of the enterprises. Their findings revealed that managements of companies realized the importance of the application of strategic management accounting techniques in order to achieve the strategic goals of their companies as well as their success, survival and growth in the markets [53, 54].

D. Firm Performance

Firm performance (FP) is usually measured using financial and non-financial performance measures. FP comprises of financial efficiency measures such as return on investment and return on equity, and profit measures such as return on sales and net profit margin [36]. Non-financial measures include customer satisfaction, sales growth, employee's growth and market share. FP refers to the firm's

success in the market, which may have different outcomes [55]. Performance can be characterized as the firm's ability to create acceptable outcomes and actions [21]. [31]defines performance as the ability of an object to produce results in a dimension determined a priori, in relation to a target. This performance has traditionally been measured in financial terms [31]. The most commonly used measures of performance are efficiency (e.g. ROI), growth (e.g. increase in sales) and profit[31]. In an accounting term; performance is the relationship of the income and expenses of an enterprise, as reported in the income statement [4]. Performance measurement systems play a key role in the development of the company strategy and in the evaluation of the achievement of the organizational objectives [56]. Traditionally, accounting data have played a major role in measuring an organization's success. However, the use of financial data may have limitations as a measure of company's performance. It is found that the accounting-based financial measurement systems are no longer adequate to measure the performance of a company [57] and [58]. Therefore, many companies have adopted several new approaches that combine both financial and nonfinancial measures in order to assess their performance. By using nonfinancial measures, managers attempt to track progress on the actionable steps that lead to a company's success in the market. This information is then used together with the values and the preferences of the enterprise and its management to produce decisions about the required actions. As a result, the outputs of the enterprise in products, services, operational performance and financial performance have changed. In business studies, the concept of success is often used to refer to a firm's financial performance [59].

As such, management accounting researchers [60] have criticized companies that emphasis on financial performance measures. As a result, companies started to include key non-financial measures within their performance measurement systems to provide managers with the appropriate information about their overall company's situation [61] and [62]. As such, it has been argued that financial measures alone are not sufficient for making decisions in modern firms, and therefore performance measures should include both financial and non-financial matters[31]. These non-financial measures usually deal with time, flexibility, quality of manufacturing and entrepreneurial satisfaction[56] and [63]. Traditionally the concept of success is defined in terms of financial performance, such as growth, profit, turnover or return of investment, or number of employees [55] and [31]. Non-financial measures of success include autonomy, job satisfaction, the ability to balance work and family [55] and [64].

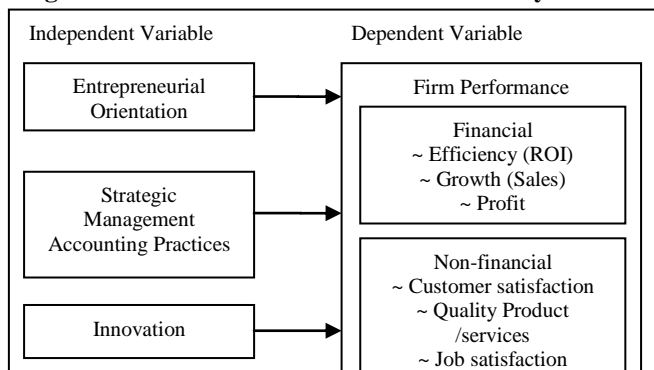
E. Resources-Based View Theory (RBV)

According to [65] and [66], resources based view (RBV) developed by Penrose (1959) suggested that a company should be considered as a collection of physical and human resources bound together in an organizational structure. The application of RBV theory can help one in explaining why some firms consistently out-perform other firms [67]. According to [67] and [68], RBV looks at firms that differ from each other since they have their own resources. Varying performance between firms is a result of heterogeneity of assets [4] and [68] and focused on factors that cause these differences to prevail [42]. Further, [4] states that RBV is the way to answer for different level of firm performance in same industries. RBV explains firm's ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier [69]; virtue of unique resources such as valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific [70].

F. Theoretical Framework

The RBV theory provided the premise for the development of the framework to enable the study of factors that influence SME performance within the Craft industry (see Figure 1). There are three independent variables and one dependent variable. The firm performance is taken as the dependent variable and it can be examined in relation to financial and non-financial perspectives. While, the independent variables comprised of entrepreneurial orientation, strategic management accounting practices and innovation.

Figure 1: Theoretical Framework of the Study



2012; Wilden et.al., 2013)

With an appropriate firm performance measurement system in place coupled with entrepreneurial orientation, strategic management accounting practices and innovation, SMEs will be able to enhance its performance in the dynamic business environment. Such practice in place will enable the effective development and implementation of company's strategies, which can lead to the achievement company's objectives. SMEs can

continue to become one of the key players that can contribute to the economic growth of the country.

III. Conclusion

SMEs sector is perceived as an important contributor to the economy growth of the nation. As such, it is pertinent that entrepreneurs and management of SMEs understand financial and non-financial behavior and management practices within the SMEs. Thus, this paper would enable a better understanding of the factors comprising of entrepreneurial orientation, strategic management accounting practices and innovation that can influence SMEs performances within the Craft industry. In addition, this paper has also highlighted the importance of incorporating non-financial measures besides financial measures in evaluating SMEs performances. Further to that, using case study or survey methods the framework developed in this study can provide researchers to examine whether these factors indeed influence firm performance specifically among SMEs in various sectors.

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