

# ENTREPRENEURIAL STRATEGY-MAKING MODE AND ORGANISATIONAL PERFORMANCE OF INTERNET BUSINESS IN MALAYSIA

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## Abstract

*The aim of this research is to elucidate the impact of entrepreneurial strategy-making mode (ESM) on the organisational performance of Internet business in Malaysia. Internet business today is facing major transformations mainly due to increased competition, changes in consumer behaviour, and technological advancements. Poor strategy development of Internet entrepreneurs has been linked to the failure of Internet business. Organisational and environmental factors are among the factors that have an impact on strategy-making mode and organisational performance of Internet business, which needs to be clarified as some Internet businesses fail and others are successful. As Internet business is an important growth engine in Malaysia nowadays, a potentially good ESM can be discovered to develop Malaysian Internet business. As such, this article includes a discussion of the background and the uniqueness of Internet business, as well as highlights the factors that will affect the ESM on the organisational performance of Internet business. The paper discuss that the implementation of effective strategy making could deliver a number of potential benefits to Internet entrepreneurs. The key contribution of this study is the empirical evidence on the importance of being entrepreneurial among Internet business in Malaysia.*

*Keywords: Entrepreneurial Strategy-Making Mode, Organisational Performance, Internet Business*

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## Introduction

In the digital era nowadays, ICT skills are a must for an individual in their daily routine activities. If the individuals do not have or master ICT skills, they will be left behind by others with these skills. This is because ICT skills have already become the current needs of an individual and future demand for an organisation nowadays (Musa, 2008).

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Omar and Anas (2014) found that the development of the current ICT has made Malaysians more knowledgeable and informative because the information is always ready and available with one click on the search engine. Hence, it is also able to generate critical thinking and abilities to brainstorm ideas in order to increase the source of income for an individual and the organisation. This statement has been supported by previous studies from Musa (2008), where ICT is also known as a gateway for the unlimited access to knowledge. Besides, with ICT facilities and skills, it will enable individuals to gain knowledge in various fields for the use of social, employment, economy, educations, and politics (Musa, 2008).

By looking towards the Tenth Malaysia Plan (Tenth Plan), 2011-2015, several ICT initiatives continued to be implemented to transform the nation into an innovative digital economy (Economic Planning Unit, 2011). However, in the Eleventh Malaysia Plan (Eleventh Plan), 2016-2020, the government has emphasised on driving ICT in the knowledge economy through innovation and productivity to enhance competitiveness and wealth creation. Thus, the growth of the ICT industry will, in turn, drive the demand for a strong digital infrastructure, which fundamental to Malaysia to stay competitive in the market. Nevertheless, in order to be one of the driving forces in the development of ICT, the ICT has to play an important role in the development of the country, which is Malaysia, mostly to improve effectiveness, productivity, and competitiveness (Mohd Yusof, Fuziah, Mohd Safar, and Mat Pauzi, 2009).

Internet business plays an important part in the economic growth of a country through new business venture formation and development of current Internet firms. The increasing development of information technology (IT) has significantly affected both firms and markets. Therefore, the tool that presently has the most significant consequence in the business world is the Internet, where the Internet is one of the functions nowadays that is becoming important as a trade infrastructure. Thus, the Internet indirectly becomes a medium or a tool for people to exchange their information and communicate with each other at a speed that has never been seen before.

In this new era, there are two types of firms using this type of new IT. The first one is the firms using the Internet along with their physical presence or known as a traditional company. This type of firm will use the Internet as a new distribution channel or alternatively as a logical extension of their traditional business. The second type of firm is known as the pure dot-com firm (Internet startup or cyber-traders). This type of pure dot-com firm has been precisely considered to run in this new environment. Thus, these two types of firms, which are traditional business and pure dot-com company are now taking on a significant role on the Internet (Tarres, Melendez, & Obra, 2006).

Mokhtar (2015) mentioned that the use of the Internet has already turned into a popular stage for businesses in order to market their products and services in the globalised world. This statement has been supported by a study from the Internet World Stats (2014) on the increasing number of Internet users. The study showed that Asia has the most Internet users with 45.7 % of users more compared to other regions. However, this is probably related to the higher population in Asia, which is almost 3,396.4 million (for instance, as compared to Oceania, which is only 36.7 million). The use of the Internet, mainly in emerging countries, has increased rapidly in recent years (Chinn & Fairlie, 2006; Qiang, 2010), and this study has

been supported by the International Telecommunication Union (2011), which showed that there was an increase in Internet users, in both developed and developing countries.

Paynter and Lim (2001) stated that Malaysia stepped into the beginning age of the Internet in 1995 and according to them, around 1996, the development began for the total Internet hosts in Malaysia. Based on the result of the first Malaysian Internet survey that was implemented from October to November 1995 by MIMOS and Beta Interactive Service, it showed that one out of every thousand Malaysians has the access to the Internet (20,000 Internet users out of 20 million inhabitants) (Beta Interactive Services, 1996). Lee (2000) argued that this number increased to 2.6 % from the total of the population in 1998. This increased number of the percentage was proven by the number of computer units sold, which was 467,000 in 1998 and increased to 701,000 in 2000 (Lee, 2000). This percentage indicated an increasing growth.

Moreover, a survey conducted by the Malaysian Communication and Multimedia Malaysia (MCMC) (2014) on Internet users showed an increase in the percentage of Internet users across Malaysia at 66.6 % against 33.4 % of non-users. However, the Internet has experienced increasing popularity among Malaysians due to its functions in information and idea sharing, which allows the development of new communities, channels, and platforms for substantial business activities.

Omar and Anas (2014) found that in Malaysia, through the initiative given by the government, e-commerce in Malaysia now stands at a more inspiring note. They also mentioned that the initiative given by the government is to ensure that the e-commerce system is fully implemented by communities in Malaysia as many infrastructure construction and frameworks have been and will be developed in the future. Hence, the study from Omar and Anas (2014) found that the government has provided a huge allocation in order to ensure all equipment and requirements related to the ICT sector can be developed and can deliver useful benefits to the communities in Malaysia, especially to Internet business users.

However, all of the literature that has been discussed can only be done through a wise management of Internet business. For example, by looking towards the existing successful Internet business and consistent effort, Internet business can be carried out successfully with the support of the government authorities and also winning the trust of consumers (Omar and Anas, 2014). Hence, with the innovation of conventional method, it surely attracts consumers to deal virtually. To date, as Internet businesses are important growth engines in many developed countries and other emerging countries in driving the economy of their countries respectively, including Malaysia, therefore, a great potential can be exposed to develop Malaysian Internet businesses through entrepreneurial strategy-making mode (ESM) in order to contribute to the success of organisational performance.

### **The uniqueness of Internet businesses**

Towards the uniqueness of Internet businesses, Miller (1983) proposed to researchers that they have to reflect the unique characteristics of different types of firms when they study the firm-

level entrepreneurship. Thus, this part will discuss the uniqueness of Internet businesses as this kind of firms are very different from other firms.

The first unique characteristic is where the Internet offers a basis platform for global connectivity and communication around the world. This is because the study by Barnes et al. (2003) found that a firm can easily reach more towards domestic and international customers due to the digital location on the World Wide Web that permits a firm to reach their customers. However, this basis platform provides the advantages to the entire Internet firms by offering services to provide the relations between virtual customers in unique ways. Nevertheless, Omar and Anas (2014) stated that Internet business never closes with the use of ICT. This is because the operating hours will be 24 hours a day and seven days in a week in accordance with the requirement of the business owner. Therefore, this is clearly an advantage for customers because transactions can be done by them anytime and anywhere without any limit. Thus, this is how these basis platforms take the advantage of this global interactivity.

Besides, digital sphere also allows a firm to offer a variety of products or services with different suitability for online Internet selling. Barua et al. (1999) reported that the product that has achieved higher productivity is the virtual product of dot-com firms compared to the physical product that firms sell on the Internet. This higher productivity can be achieved through online selling because of the virtual product quality and the unique characteristics of that particular product that help to increase the level of digitisation and at the same time it provides lower operational costs. Thus, the products and services that are offered in the digital sphere are unique and have lower operational costs. However, at the same time, this advantage will indirectly reduce human traffic in a certain physical store since time is very precious nowadays. Therefore, by having this digital sphere service, it will benefit customers and also sellers.

In conjunction with that, a study by Omar and Anas (2014) stated that from the consumer point of view, the Internet is a facility for them to get the product or service that they need without having to be trapped in the traffic, finding a parking space, and wasting their time. Hence, this is where Internet business plays its role, where the user or customer can view or browse through and evaluate the products online through the website, and then place the order and proceed with the payment. After that, the goods will be delivered to their doorstep. However, all this will soon become a trend in today's modern lifestyle and in accordance with the present life, especially for working people, as the time for shopping is very limited for them. Hence, this type of users or customers will shop online rather than spend their time at the physical store. Therefore, e-commerce is a major option nowadays to purchase goods or services.

Moreover, the Internet also becomes a new product development platform and environment test towards brand new business models. These business models have emerged due to the Internet and only exist on the Internet. Consequently, their positioning of the digital channel is well improved. Other than that, by having these platforms on the business models, they compete in advanced markets. In this case, Day and Fein (2003) found that due to the nature of the changes that digital firms bring to the marketplace by providing and offering new products and services, it will help the digital firms face less competition from traditional businesses.

Also, advertising is one of the important factors in the world of marketing. Hence, this will make Internet businesses more unique by promoting the products and services that help customers to get some brief explanation and product knowledge before they purchase. The study by Kauffman and Wang (2008) found that Internet firms such as Yahoo! and Google provide their content and services to individuals for free since advertising has become the most significant source of their revenues. Therefore, in the digital sphere, advertising through the Web has turned into the main source of profits for many Internet firms and this digital channel has become a medium where companies can communicate with their customers virtually.

### **Entrepreneurial strategy-making mode (ESM) and organisational performance**

A strategy-making mode is known as a combination of dimensions or elements of strategy-making that work together and is able to define a coherent pattern of action for the firm (Dess and Lumpkin, 2001). Hence, these dimensions of strategy-making are “thought to include the full range of organisational activities that address issues of decision-making, planning, and management” (Lumpkin and Dess, 1995).

Previous studies found that an entrepreneurial strategy-making process is a specific strategy-making mode that is consistent with the literature on corporate entrepreneurship and strategic management. However, it needs to be noted that the term entrepreneurship is used together with strategy-making to refer to a particular mode of strategy-making (Dess et al., 1997; Dess and Lumpkin, 2001). An ESM is a series of dimensions that guide decision-making at the strategic level of the firm (Weezel, 2009).

Meanwhile, an entrepreneurial strategy-making process is also referred to as an 'entrepreneurial posture' by Covin and Slevin (1989) and an 'entrepreneurial orientation' by Lumpkin and Dess (1996). Entrepreneurial strategy-making (ESM) topic has been much discussed in the field of management and entrepreneurship literature for many years (Lumpkin and Dess, 1996). The definition of ESM by Miller (1983) consists of three aspects. The first aspect is innovativeness where the firms are involved in technological innovation, the second aspect is able to undertake risky ventures, which refers to risk taking, and the third aspect is to pursue opportunities proactively, which refers to proactiveness.

Organisations play an important role in our daily lives and successful organisations symbolise a key ingredient for developing the communities and the countries. Thus, these have been supported by Weezel (2009) where most of the economists consider that organisations and institutions are similar to an engine in determining the economic, social, and political progress. Gavrea, Ilies, & Stegorean (2011) confirmed that continuous performance is the main focus of every organisation that enables firms to grow and progress. Therefore, organisational performance is known as an important indicator of organisational success and also becomes an important variable in research management.

Miller (1983) argued that in order for a firm to be labelled as “entrepreneurial”, a firm should be consistently taking risks, as well as be innovative and proactive. Previous literature has extensively discussed the relationship between the ESM of the firm and its performance, but

the connection does not seem to be as direct as it might appear (Lumpkin and Dess, 1996; Dess, Lumpkin and Covin, 1997; Lyon, Lumpkin and Dess, 2000; Lumpkin and Dess, 2001). However, Lumpkin and Dess (1996) have drawn the attention to the complexity of ESM on performance relationship. In fact, they suggested that the connection between ESM and performance relationship occurs in a specific context.

In relation to that, Li et al. (2005) found that the relationship between ESM and performance in China's new venture was influenced by the external environment, which is environmental uncertainty, as well as the internal organisational processes, which are technology competence. Moreover, ESM has been argued to be positively connected to firm performance. This is because the connection can help firms gain from first-mover advantages and capitalise on emerging opportunities (Covin & Slevin, 1991; Zahra & Covin, 1995). For example, Zahra and Covin (1995) argued that firms are able to aim the premium market segments, charge high prices and skim the market ahead of their competitors by having ESM in their firms.

In brief, the extant literature indicates that the impact of ESM on performance is not direct but contingent. This statement is supported by Dess et al. (1997), where it is suggested that an essential key in understanding the effectiveness ESM is "to analyse the context in which it occurs". However, this study will examine both internal factors that consist of technology competency and marketing competency, as well as the external factors that consist of environmental uncertainty and industry growth within the context of Internet businesses in Malaysia.

## **Factors affecting entrepreneurial strategy-making mode (ESM) and organisational performance**

### **Internal factors**

#### *Technological competency*

Li et al. (2005) found that the success of ESM will also be influenced by the internal firm competency. This is supported by previous studies by Lumpkin & Dess (1996), in which the willingness of the firm can be inferred to acquire large resource commitments for uncertain and unique business. Hence, it is highly risky and has a strong resource requirement. As discussed earlier in the previous part, ESM consists of three items, which are risk-taking, innovativeness, and proactiveness. Li et al. (2005) found that Internet business that engages through innovativeness, risk-taking, and proactiveness needs technological competency and marketing competency support.

Besides, technology in business nowadays is a must and they need to keep updated in order to sustain in the market. Therefore, the firms have to invest in technology for several reasons. This is supported by Lester (2008) where he listed four reasons why firms decide to invest in technology. The first reason is the perceived cost savings and income generation benefits; the second reason is the external pressure from rivals, suppliers, and buyers; the third reason is organisational readiness, and finally the perceived ease of use. Thus, most of the firms use

technology for their survival and success in order to stay competitive and sustain in the market.

Moorman and Slotegraaf (1999) found that technological competency refers to a venture's ability to develop substantial technological resources and use them in the development of new products. Moreover, Lall (1996) found that the firms are able to utilise equipment and technological information professionally when technological competency is attained. Hence, Li et al. (2005) found that from technological competency, the firms are able to grow faster. Thus, it will help to increase their market share and business performance.

Therefore, in order to benefit from the three items that consist of risk-taking, innovativeness, and proactiveness in strategy making, Internet businesses or digital firms require solid technological competency. This is because by having solid technological competency, it will help this type of strategy making to allow Internet businesses or digital firms to identify new opportunities through developing high quality of new products. Previous studies by Hitt et al. (2000) reported that a technology gap occurs between firms in emerging markets and firms in developed markets. However, the study by Li et al. (2005) stated that if Internet businesses or digital firms are prepared with solid technological competency and implement the entrepreneurial strategy making, they are able to gain competitive advantage and achieve better performance in the digital sphere.

#### *Marketing competency*

Moorman and Slotegraaf (1999) affirmed that marketing competency shows a venture's ability to the organisation's wide information, distribution, and good feedback related to the current and future customer needs and competitive situations. Therefore, marketing competencies are able to provide a resource basis for Internet business in order to effectively implement entrepreneurial strategic decisions. This statement is supported by the study of Li et al. (2005), where they confirmed that the venture that has solid technological competency and marketing competency is expected to implement ESM successfully and achieve good performance.

Meanwhile, Day (1994) found that firms that are able to meet and alert on the need of customers and are capable towards the value creation of all elements of a product or service are well developed with good marketing competency. Therefore, constituent marketing capabilities are a linked system based on the knowledge and skills that allow the company to generate customer value and also facilitate timely, as well as affect the response to marketing challenges (Vorhies, 1998; Vorhies and Harker, 2000; Song et al., 2005). The previous study by Li et al. (2005) stated that marketing competency is also essential to benefit from ESM. As discussed in the previous part, ESM includes observing the changes in the market, respond quickly, and taking advantage of emerging opportunities (Li et al., 2005).

Previous literature has been extensively discussed by Li et al. (2005), where with solid marketing competencies, new ventures are able to identify the "right" business opportunities emerging in the process of ESM. However, with solid marketing competency, it helps Internet

businesses to analyse and understand better about customer needs and also avoid commitments to wrong directions that will decrease the growth and performance of that organisations.

## **External factors**

### *Environmental uncertainty*

Smircich and Stubbard (1985) stated that they focused on the features of the relationship between a firm and its surrounding, which is a concept of uncertainty that has been a central construct in many research initiatives. They mentioned that the business will become increasingly uncertain when the environmental dynamism and complexity continue to increase. Besides, Jauch and Kraft (1986) affirmed that the management of uncertainty will continue to be the main task of management involving the development of mechanisms to reduce, absorb, counter, or avoid it completely.

Environmental uncertainty refers to the degree of change and unpredictability of a market environment (Miller, 1983). Li et al. (2005) found that the manager has difficulties in getting access to the information that they need, difficulties in understanding, believing, and acting during collection of the information in an uncertain environment. Therefore, it could be argued that in highly uncertain environments, entrepreneurial attitude may lead the firms in achieving a very poor performance. Meanwhile, Li et al. (2005) clarified that in highly uncertain environments, the performance of the product, competitive advantage, and industry structure are generally short lived or in a constant state of fluctuation. In addition, Khandwalla (1987) found that in order to cope with the uncertain conditions through these three items (risk-taking, innovative behaviour, and proactive strategies), the firms must be able to compete in dynamic environments.

However, the study by Li et al. (2005) stated that the environments faced by the Chinese new ventures become more dynamic and uncertain in China through economic change. Besides, they mentioned that with the economic change, market power and competition play a vital role in the overall economic system. Therefore, to become highly uncertain, it requires Internet businesses to learn quickly and be aggressive towards the digital market competition in order to achieve competitive advantage in an uncertain environment.

### *Industry growth*

Industry growth refers to the growth rates of the industry, in which a firm's competences and it capture the fullness of opportunity in the industry (McDougall et al., 1994; Porter, 1980). This is supported by Lumpkin & Dess (1996) in previous literature; in order to reflect the level of environmental magnificence, industry growth has been used to capture the opportunity in the industry. For example, Porter (1980) suggested that high industry growth means firms entering into a particular industry would not provoke strong retaliation by incumbent firms. This is argued by Peng and Luo (2000) that a fast growing industry might offer an opportunity to develop for most of its firms.



Despite high growth industries offer opportunities, the window to exploit these opportunities is typically limited because as new entrants are attracted to these industries, increasing competition will soon reduce excess profit (Porter, 1980). Li et al. (2005) claimed that firms' entrepreneurial strategy-making will largely determine how much and how fast they capture the "pie" in competing with their rivals. The study by Li et al. (2005) also mentioned that particularly in China, its potential market opportunity attracted many foreign firms to enter this market.

Besides, the study by Lumpkin and Dess (1996) argued that the firms competing in munificent environments will generate additional slack resources because of the relatively higher level of profits. In fact, they suggested that such slack resources can be used to facilitate experimentation with new strategies and practices, thus enhancing the effectiveness of entrepreneurial strategy-making.

However, in Malaysia, towards increasing the economic growth, the incentives given by the government are currently widening the potential market opportunities for Internet business. Thus, these benefits have attracted many young entrepreneurs in Malaysia to enter this virtual market. As noted previously, the percentage of Internet users in Malaysia is increasing. Therefore, it appears that Internet businesses with a high level of ESM should have a better chance to capture growing opportunities in the digital sphere with a good and effective strategy-making.

### **Implementation of effective strategy-making**

Zelený (2010) stated that strategy is about making a series of decisions that drive corporate action under specific connection with the company's environment and context. This is because decisions are actions and strategy itself is an action, not just a description of the action. Strategy is a fit and purposeful action that will impress both competitors and customers. This is because the poor implementation of strategy development has been linked to the failure of Internet business. Thus, the action of Internet entrepreneurs has to be stronger and more consistent in order to implement an effective strategy-making.

One of the implementations towards effective strategy making has been discussed extensively in the previous study by Blahová & Knápková, (2011) where the first is through the planning and execution, in which both of these are independent. They argued that the implementation follows the formulation whereby one cannot implement something until that something exists. Thus, strategy formulation and implementation are separated. However, formulation and implementation are also interdependent, which is part of an overall process of planning-executing-adapting. Therefore, this interdependence recommends the intersection between planners and achievers, and helps to improve the probability of execution success (Blahová & Knápková, 2011).

Second, the implementation of effective strategy takes longer time. This statement is supported by Blahová & Knápková, (2011), whereby this can challenge the manager's attention to complete with details. Hence, in order to avoid external 'shocks' and changes, Blahová &

Knápková (2011) suggested that the controls must be set to provide feedback and keep management up to date. However, when an Internet business fails to execute its strategy, the Internet entrepreneurs should not think about restructuring its processes. This is because the essentials of effective implementation begin by clarifying the right decisions and ensure the information flows in a right track where it needs to go. Besides, if the Internet entrepreneurs get those right, the correct structure and motivators often become obvious.

In fact, everything done surely has its own risks. Similarly in Internet business, any other business still faces risks that can harm the successful of the implementation. Therefore, something that is well planned and managed is able to reduce the risk that will be faced by the owner of the business. Hence, using the right methods, frameworks, or timing may reduce or minimise Internet business failure.

## **Conclusion**

The important role of entrepreneurial strategy-making mode (ESM) in organisational performance has been extensively studied in the literature. It shows that an entrepreneurial strategy-making mode (ESM) is the propensity of a firm to be innovative, risk-taking and proactive which has a direct relationship with the organisational performance. Besides, the value of entrepreneurial strategy-making mode (ESM) on organisational performance depends on the extent to which external environments provide opportunities for the Internet business to explore their entrepreneurial strategy-making mode (ESM), as well as the extent to which internal competences enable the Internet business to capture opportunities when implementing the effective strategy-making. Therefore, the Internet entrepreneur must seriously implement the effective strategy-making that has been extensively discussed in order to promote the entrepreneurial strategy-making mode (ESM) in organisation.

This study makes contribution towards the empirical evidence of entrepreneurial strategy-making mode (ESM) on Internet business performance. Since most of the studies on entrepreneurial strategy-making mode (ESM) and organisational performance have been conducted among the established companies, therefore, this research shed some light on the Internet business settings. Their performances are a major concern due to initiative given by the government where government has provided a huge allocation to the ICT sector. It is to ensure that all equipment and requirements related to the ICT sector can be developed and can deliver useful benefits to the communities in Malaysia, especially to the Internet business users. Thus, it is imperative that the Internet entrepreneur implement effective strategy-making to enhance their performance and ensure their survival in digital sphere.

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