

**CORPORATE ENTREPRENEURIAL ORIENTATION
AND THE PERFORMANCE OF THE SABAH STATE
GOVERNMENT LINK COMPANIES**

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**Dissertation submitted in partial fulfillment of
the requirement for the degree of Master Of
Business Administration (MBA)**

**SCHOOL OF BUSINESS AND ECONOMICS
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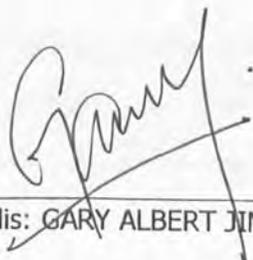
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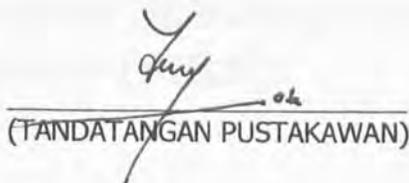
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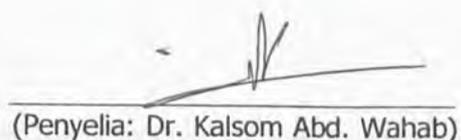
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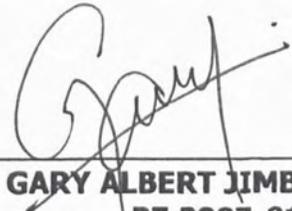
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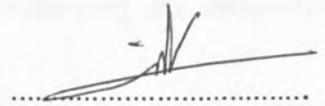
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ABSTRACT

This study aims to determine the relationship existed between the various factors dictating the corporate entrepreneurial orientation and the performance of the Sabah State Government Link Companies (GLCs). The main objectives of the study was to determine the relationship between the performance of the Sabah state GLCs in relation to the internal environment for corporate entrepreneurship (managerial support, work discretion, rewards, time availability, organizational boundaries), organizational factors (age of firm, size of firm) and the external factors (technological changes). Data collection was conducted through questionnaire and interviews and a total of 35 respondents had participated in the research process. The results from the analysis obtained from the data collected shows that 41.8% of the variance are able to be explained by the research model. Managerial support, rewards and organizational boundaries produces a significant result while others appear to be insignificant. Further research is still need to be done in relation to the development of the state government link companies and the incorporation of the values of corporate entrepreneurship in their business activities to enable all the GLCs to prosper and further contribute to the development of the nation and the state of Sabah in particular.



ABSTRAK

KAJIAN ORIENTASI KEUSAHAWANAN KORPORAT DAN PRESTASI SYARIKAT BERKAITAN KERAJAAN NEGERI SABAH

Kajian ini dilakukan adalah bagi menilai perhubungan diantara pelbagai faktor yang mendorong kearah keusahawanan korporat dan prestasi syarikat berkaitan kerajaan negeri Sabah. Tujuan kajian ini adalah untuk mengenal pasti perhubungan diantara prestasi syarikat berkaitan kerajaan negeri Sabah dan faktor dalaman keusahawanan korporat (Dorongan Atasan, Kebebasan Bekerja, Ganjaran, Masa, Halangan Organisasi), faktor organisasi (usia, saiz), dan faktor luaran (perubahan teknologi). Data diperolehi melalui borang soal selidik dan juga temubual terhadap 35 syarikat berkaitan kerajaan yang mengikuti kajian ini. Keputusan daripada analisis data yang dilakukan mendapati bahawa 41.8% varians telah dapat dipenuhi oleh model kajian ini. Dan hasil kajian turut menunjukkan terdapatnya perhubungan yang signifikan diantara dorongan atasan, ganjaran, halangan organisasi dan prestasi syarikat berkaitan kerajaan negeri Sabah. Manakala faktor-faktor keusahawanan korporat yang lain didapati tidak mempunyai kesan yang signifikan terhadap prestasi syarikat berkaitan kerajaan negeri Sabah. Lebih banyak kajian perlu dilakukan keatas prestasi syarikat syarikat berkaitan kerajaan negeri Sabah serta penerapan aktiviti keusahawanan korporat bagi membolehkan syarikat syarikat berkaitan kerajaan melangkah lebih maju demi kesejahteraan ekonomi dan pembangunan negeri sabah.

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CHAPTER 1

INTRODUCTION

1.1 The Inconvenient Truth Of The GLCs

It is undeniable that the Government Link Companies (GLCs) possesses a significant presence in today's Malaysia corporate sector. However, in the early years, the term Government Link Companies or GLCs is not widely known as well as its existence. The GLCs is being set up as to become the business arm of the government with the intention of generating more income to the government. Such companies have a primary commercial objective and in which the Malaysian government has a direct controlling stake¹. Soon, the nation top GLCs were starting to make their present known to the public and everyone started to understand the relevancies of its existence. GLCs became the centre of attention during the premiership of Tun Mahathir Mohammad whom revolutionizes the nation industrial capacity and achievement.

But amidst of its exclusive images as being the government beloved, the GLCs could not run away from various business illnesses of which many have suffered greatly as a result of poor management and business planning, overly confident towards the market, incompetent management board and the lack of corporate governance. Government often comes into the rescue to enable such GLCs to continue to survive through policy changes and strategy in favor of these companies. One of the classic examples widely acknowledges by most Malaysian is PROTON, the national used to be number one car maker. Being the nation first car-maker, PROTON was protected in a business environment of which competitors found it hard to penetrate. To quote from Heong C.Y (2003):

" PROTON became the number one car maker only because government intervention imposed a warped import tax regime that tacked tariffs ranging from 140 to

¹ Definition are courtesy of the Putrajaya Committee on GLC High Performance (PCG)



300 percent on to foreign cars and priced them well out of the reach of ordinary Malaysians”.

Ironically still, despite such preferential treatment given, PROTON have been hampered with heavy debts which saw as at 2003 Proton's balance sheet debt is RM700 million or USD184.2 million (Heong, 2003). Even worst is that its inability to come out with new car model fast enough compare to other foreign car maker. As a result, vehicle sales volume by PROTON dropped as much as 25% in the year 2003.

Another example of disappointing GLCs achievement is the Malaysian Airlines System. The widely spoken government bailout upon Malaysia Airlines System had taken placed in the late 2000 and was widely criticized by many. The incident saw the government paying an estimated figure of RM470 million to acquire the controlling stake back from a politically link businessman whom has been accused of flying the airline business into the ground. The took over of the national carrier also came with an unpleasant bonus of nearly RM2.5 billion in accumulated debt and heading towards its fourth straight year of losses. In 2005, Malaysian Airlines System made a record breaking loss of 1.26 billion in the current year and decreasing employee productivity.

The previous examples are some of the many more of the disappointing GLCs performance which have been reported all through the year. This is being acknowledged by the Putrajaya Committee on High Performance GLC (PCG) in its 2005 report presentation which had stated that the underlying performance of the GLCs is much weaker than reported. Therefore, this has become the basis of this study to look into corporate entrepreneurship as an alternative of becoming a profound savior of GLCs. Corporate entrepreneurship will be able to tap into key organizational capabilities in order for GLCs remain competitive. Corporate entrepreneurship facilitates an ongoing change and innovation in established organizations and this can equally being implemented in any other organization such as the GLCs.

1.2 Sabah State Government Link Companies

The setting up of Government Link Companies was also transcended into the state level as an alternative way for every state government to acquire extra income for further state development. An alternative approach is needed for Sabah to gain more revenue to boost the development in the state as well as to have dedicated bodies to manage and tapped into the full potential of the state rich and vast resources. As a result, a number of state GLCs has been set up under the supervision of various state ministries to undertaken the said role. To name a few of the State GLCs are such as the Sabah Energy Corporation, Sabah Credit Corporation, Kota Kinabalu Industrial Parks Sdn Bhd, POIC Sdn Bhd, Sawit Kinabalu Sdn Bhd and many more.

Results have shown that entrepreneurship plays an important role in improving and promoting economic growth. GLCs which are wholly owned by the state government are often put to the test on its capability to do what they are good at which is to generate more income for the state government. In this age of extreme business challenges and competition, it was important for GLCs to be able to maintain and sustain its competitive edge and to do so is by incorporating entrepreneurial element into the organization. Although there is less report known on the performance of the GLCs in Sabah as compared to those nationally recognized but the Sabah State GLCs must recognize entrepreneurship as a way for them to chart the company vision and to be able to assume risk taking more willingly and thus achieving their primary commercial requirement as the state government investment arm. The state GLCs must be able to view corporate entrepreneurship as a way for them to sustain their competitive advantage through creative idea generation and positive towards risk taking. To realize the sound entrepreneurial culture in a particular state GLCs, therefore, managers play a pivotal role to support and extending the entrepreneurial activity to the whole organization and as an end result, increase in the company performance.

Thus, it was the intention of the researcher to examine the relationship between corporate entrepreneurial orientation and the performance of the State GLCs. The factors under study to examine the corporate entrepreneurial orientation are namely the internal environment for corporate entrepreneurship, organizational

factors and the external factors. Variables for each of these factors will be further elaborated in the following chapter.

1.3 Corporate Entrepreneurship

Often corporate entrepreneurship happens in a company without the company knowing it. Although it has been a long established phenomenon in the west, but it was rather still a newborn term in the eastern part of the world. Over the years, the definition of corporate entrepreneurship has come in many forms. For example, Morris, Kuratko, Covin (2008) refer corporate entrepreneurship as a term used to describe entrepreneurial behavior that happening inside an organization, be it the mid sized or large organization. Another author incorporates innovation as a source for corporate entrepreneurship which centers on reenergizing and enhancing the firm's ability to acquire innovative skills and capabilities (Damanpour, 1991).

Antoncic and Hisrich (2003) recognized the importance of corporate entrepreneurship for the organizational wealth creation. Their research finding has demonstrated that corporate entrepreneurship can be a significant predictor of a particular company wealth creation, as well as profitability and growth. Frese et. el. (2000) foreseen entrepreneurship as vital for economic development, therefore he suggested that entrepreneurship must be practiced in many sections of organizations. John Maes (2003) provided a comprehensive collection of corporate entrepreneurship definition (table 1.1) given by respective researchers and he noticed that the corporate entrepreneurship construct is still evolving.

1.4 Problem Statement

With the disappointing and slow performance of various Government Link Companies over the years has resulted in the growing tension and mounting pressure from many for GLCs to look into alternatives as to realign the GLCs course into improving its performance and as to become a successful company that can be look upon to by other private or non governmental link companies. GLCs must therefore assess the

company overall corporate entrepreneurial orientation as a mean for improving the company performance.

With the fast pace of changing environment in today's business, it is important for any firm to be strengthen internally especially on encouraging the corporate entrepreneurial climate to spur. The internal environment for corporate entrepreneurship as identified by J.S Hornsby et al. (2000) focuses on 5 main factors namely rewards, management support, time availability, work discretion, organizational boundaries and time availability. Therefore, GLCs must be able to satisfy the said internal environment for corporate entrepreneurship to be able to increase the firm overall performance through corporate entrepreneurial activities. Particular issues pertaining to the internal environment affecting the corporate entrepreneurial orientation were:

- a. State GLCs function as the business arm of the State Government and thus have the obligation to proactively generate more incomes and at the same time to be self-sufficient. But with the "Government Owned" tag line which goes together with the establishment of the GLCs, it therefore creates a safe zone of operation for this company. As a result, does state GLCs possesses the entrepreneurial strength and initiatives to go beyond the safe zone to ensure the organization survival?
- b. Management support is deemed important to encourage entrepreneurial activities within the organization. In the context of a state GLCs, does the management level proactively encouraging and promoting entrepreneurial activities in the organization to improve their performance.
- c. To be related to the government, state GLCs are well cushioned against any major risk. Thus the question to be raised are state GLCs and its content were able to proactively encourage calculated risk taking while maintaining tolerance for failure of which is a warranted necessities to encourage entrepreneurial activities to spur and increase company performance.

- d. Does state GLCs apply reward systems that could encourage its personnel to be rewarded for their creativity in idea generation and assuming the risk for innovation to increase company performance?
- e. Availability of resources (such as time) will encourage innovative activities. Thus, this helps to rise up the question of whether there's an availability of slack resources among the state GLCs in order for employee to be able to get into innovation and help to increase the company performance.
- f. Does the state GLCs organizational structure provide the administrative mechanisms by which ideas are evaluated, chosen and implemented (Burgelman and Sayles, 1986) as to be supportive to the entrepreneurial activities.

Other factors needed to be considered that influencing the GLCs performance in related with the corporate entrepreneurial orientation are the organizational factors such as size and age of the firm. Size of firm often becomes the physical benchmark to determine a company particular position in comparison to the others.

Having taking into accounts the internal environment and organizational factors affecting corporate entrepreneurial orientation, the external environment were also seen as a major contributor affecting an organization corporate entrepreneurial orientation. Therefore, this study will also be studying the external factors for corporate entrepreneurial orientation (technological changes and environmental dynamism) in relation to the GLCs performance.

1.5 Objective of Study

The objective of the study is to examine the relationship of corporate entrepreneurial orientation and the performance of the Sabah State Government Link Companies (GLCs). Thus, it was the intention of the researcher to examine the relationship between corporate entrepreneurial orientation and the performance of the State GLCs based on three corporate entrepreneurial elements namely the internal environment for corporate entrepreneurship, organizational factors and the external

factors. Firstly, the five internal factors that said to contribute towards corporate entrepreneurship are namely management support, work discretion, rewards, time availability and organizational boundaries (J.S Hornsby et el, 2000). Secondly, the organizational factors to be examined are namely age and size of the firm. Lastly, the external environment factor to be examined is technological changes. To be specific, the objective of this study can be summed up as follow:

1. To know the degree to which internal environment for corporate entrepreneurship influences the performance of the Sabah State Government Link Companies.
2. To know the degree to which organizational factors for corporate entrepreneurship influences the performance of the Sabah State Government Link Companies.
3. To know the degree to which external factors for corporate entrepreneurship influences the performance of the Sabah State Government Link Companies.

This study will therefore try to assess the performance of the State GLCs in reference to the corporate entrepreneurial orientation of the state GLCs. To date, little is known on any effort done to assess the internal environment for corporate entrepreneurship in the state GLC that would contribute towards the performance of the GLCs, therefore, it is hope that this study could serve as a stepping stone for any future research to be conducted in other aspect pertaining to the Sabah State Government Link Companies.

1.6 Significant of Study

With the increasing need for GLCs to shape up and increase their performance, therefore, the result of this study could well served as a basis for the state GLCs to accept corporate entrepreneurship as a prime strategy. Corporate entrepreneurship could be incorporated in the company strategies to succeed.

Other than that, this study could also become as a reference for the state government in formulating policies and directive to encourage entrepreneurship activities within the state GLCs. GLCs must be made to understand and view corporate entrepreneurial activities as an acceptable phenomenon. Eventually, a sound corporate entrepreneurial climate will encourage innovativeness and increase the company performance.

This study could also become as a source of reference to the other researcher in the similar field and further research could be conducted in the future in relation to the topic research for further enrichment to the field of study.

1.7 Organization of Study

This study will consist of five major chapters namely the Introduction, Literature Review, Research Methodology, Analysis of Result and lastly the discussion and research conclusion.

In the first chapter of this study, Introduction, it will provide the overview of the Government Link Companies in relation to the overall Malaysian context and Sabah in specific as well as the various problems affecting the GLCs in Malaysia. After that, the study derives into the various problem statements, objective and the significant of the study.

In the second chapter of this study, Literature review, it will provide the various discussions made on the previous research done on the identified underlying variables that make up to the overall relationship in this research. As a result of the discussion, it will be the hypothesis that will become the elements to be measured.

In the following chapter, the Research Methodology and Framework will present the overall method of conducting the research as well as the research framework that is going to be studied.

The analysis of result on the research will be presented in chapter four and its findings will be discussed in the following chapter which will also provide some further insight and recommendation into the topic being researched.

2.1 The Government Unit Disruption

In essence, the term Government Unit Disruption is being defined by the researcher as a process of changing the form of primary state-unit structure and to which the primary structure is a particular kind of unit, government unit, a unit, or a unit. The primary unit refers to the government unit to support and maintain the government and making decisions such as making policies, laws, rules, money, organizing and services, research as well as providing for the.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Kanter (1995) proposed that in the rapid growing and competitive economies, the ability to enhance the business, wealth creation and capital accumulation has become more important. Therefore, developing the understanding of the entrepreneurial process is fundamental (Christopher W. Allison et. al. 2000). With the increasing need to improve the overall Government Link Companies' performance, corporate entrepreneurship therefore becomes a necessity. As company tries to expand, it is acknowledge that company can behave in an entrepreneurial manner that will encourage risk taking, innovativeness and being proactive to seize opportunities. The following discussion will be touching into various factors underlying this research as well as on developing the proposition or hypothesis to be measured. The various propositions or hypothesis that being developed will summarizes each variable affecting the relationship between corporate entrepreneurial orientation and the performance of the Sabah State Government Link Companies.

2.2 The Government Link Companies

In Malaysia, the term Government Link Companies as being defined by the Malaysian Ministry of Finance as companies that have a primary commercial objective and in which the Malaysian government or a particular local state government has a direct controlling stake. The controlling stake refers to the government's ability to appoint board members, management team and making decisions such as matters pertaining to contract awards, strategy, restructuring and financing, acquisition as well as divestments for GLCs.



The GLCs plays a significant part in the overall Malaysia economy of which all the GLCs constitute to almost 54% of the nation capital market and providing some 5% of job opportunities. Most of the GLCs are a provider of various strategic utilities and services. Furthermore, the GLCs also execute industrial policy and development set by the government. Although there's been a significant opportunities for GLCs to further improve their performance, the underlying performance is much weaker than reported (by measuring the differences between net profit and economic profit).

Currently, the overall Malaysian Government Link Companies performance was being monitored by the newly established Putrajaya Committee on GLC High Performance or PCG. PCG was established to execute on the few initiatives and one of the main initiative is to intensify performance management in all GLCs to ensure focus on key business priorities which is on value creation. With the main agenda set by the government to further improve the GLCs performance, therefore, it gives a stronger substance to this study to investigate the application of corporate entrepreneurship as a tool for GLCs to increase the overall performance. GLCs performance in each of its division, business unit or department, must be reviewed on a regular basis to ensure early identification of issues and opportunities. This is an act of being proactive which is an important factor towards a sound corporate entrepreneurial climate in the organization.

2.3 Corporate Entrepreneurship and Firm Performance

In relation to this research study, firm performance became the main dependent variable. Covin et. el. (1991) wrote that entrepreneurial activity stimulates general economic development as well as the economic performance of individual firms. Corporate entrepreneurship would also serve as a firm key weapon to possess a competitive edge and consequently in the end to gain lucrative financial rewards. Robert D. Hisrich (1990) says that corporate entrepreneurship takes new ideas and develops solid, functioning and profitable business.

Firm performance could be conceptualized in many terms, but in this study, the researcher is to look into a financial or economic based definition. In general, a firm economic performance can be determined in terms of sales growth and profit

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