

# The Effect of Entrepreneurial Orientation Dimensions on Takaful Agency's Business Performance in Malaysia

(Kesan Keusahawanan Orientasi terhadap Prestasi Perniagaan Agensi Takaful di Malaysia)

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## ABSTRACT

*This study aimed to examine the relationship among the five dimensions of entrepreneurial orientations (innovativeness, risk taking, autonomy, competitive aggressiveness, and proactiveness) and performance of Takaful agencies in Malaysia. A total of 211 questionnaires were collected via purposive sampling from Takaful agency's managers from three main Takaful operators namely Etiqa, Takaful Malaysia and Takaful Ikhlas. A structural equation model that assessed the relationship between the proposed variables was tested using PLS 2.0. The findings revealed that out of the five dimensions of entrepreneurial orientation, proactiveness and autonomy were found to have significant influence on business performance.*

*Keywords: Entrepreneurial orientation; business performance; agencies; Takaful; Malaysia*

## ABSTRAK

*Kajian ini bertujuan untuk mengkaji hubungan antara lima dimensi orientasi keusahawanan (inovasi, pengambilan risiko, autonomi, agresif kompetitif, dan proaktif) dan prestasi di kalangan agensi Takaful di Malaysia. Sebanyak 211 set soal selidik telah dikumpulkan melalui persampelan bertujuan daripada pengurus agensi Takaful yang tergolong dalam mana-mana tiga pengendali Takaful utama iaitu Etiqa, Takaful Malaysia dan Takaful Ikhlas. Satu model persamaan struktur yang dinilai hubungan antara pemboleh ubah yang dicadangkan telah diuji menggunakan PLS 2.0. Dapatan kajian menunjukkan bahawa dua daripada lima dimensi orientasi keusahawanan, iaitu proaktif dan autonomi mempunyai pengaruh yang signifikan terhadap prestasi perniagaan agensi Takaful.*

*Kata kunci: Orientasi keusahawanan; prestasi perniagaan; agensi; Takaful; Malaysia*

## INTRODUCTION

Insurance is a protection mechanism to protect individuals and businesses against any specified contingencies (Redzuan et al. 2009). Initially, to take up insurance policies was not an issue for Muslims as Islamic scholars all over the world had expressed different views on the permissibility (halal) or prohibition (haram) of insurance (Farooq et al. 2010; Maysami & Williams 2006). However, in 1972, Majlis Fatwa Kebangsaan of Malaysia had issued a *fatwa* (decree) that conventional life insurance does not conform to the principle of *Shariah* because it contains the elements of *gharar*, *maysir* and *riba* (Bank Negara Malaysia 2005). As a result, the Takaful industry in Malaysia started to develop in the 1980s in order to complement the services of Islamic bank. The first Takaful institution commenced its operation in 1984. Over time, more new Islamic bank and Takaful operators have been established; thus, showing Malaysia's strong commitment in promoting the country as an international Islamic financial hub in the Asian region (Pricewaterhouse Coopers 2010).

Since then, many Islamic finance studies have been conducted, but most studies are conducted in the context of Islamic banking (Kumar et al. 2010; Osman 2011). According to Abdul Hamid and Othman (2009) there is still limited empirical research on Takaful and many studies conducted are exploratory (Maysami & Williams 2006) and conceptual in nature (Abdul Hamid & Othman 2009). Generally, Takaful remains a potential business although World Takaful Report (2011) reported that the total global Takaful contribution was only US\$8.3 billion, equivalent to a growth rate of 19%; and this rate was lower in 2010. There is a huge potential for Takaful especially in Middle East, Africa and Asia. However, it is reported that the industry still suffers from a lack of penetration in the market even though it has seen double-digit growth since 2010; and the performance is still considered to be lackluster (Halim 2012). A report by Ernst & Young Takaful Report (2012) showed that Takaful market shares of Malaysia and GCC countries stood only at 10% and 15%, respectively; lesser than the industry's potential as a whole. Currently, the rate in Malaysia stands only at 14.2 percent (Jayaraman 2014). Thus, there have been

calls for the Takaful industry to apply entrepreneurial and marketing concept to make the industry more competitive (Halim 2012; Sharif 2012). Hence, the importance of understanding entrepreneurial orientation in the context of Takaful agency's performance warrants empirical examination.

Generally, many researchers are showing great interest in the entrepreneurial study as evidenced by the number of scholarly articles written as well as the birth of new entrepreneurial journals (Hansen et al. 2009). Specifically, many early researchers had shown strong interests in entrepreneurial orientation-performance studies (Stuart & Abetti 1987) and many past studies had been conducted in various industries including service industry (Stevens & Dimitriadis 2005; Lumpkin & Dess 2001; Keh, Mai Nguyen & Ng 2007). In spite of the service sector's growth in the modern economy (Oldenboom & Abratt 2000) and many past studies had focused on service organizations (Stevens & Dimitriadis 2005), little is known about the effects of innovativeness, customer orientation, and entrepreneurial orientation on the performance of the service companies (Tajeddini 2010).

Entrepreneurial Orientation (EO) has five dimensions, namely innovativeness, proactiveness, competitive aggressiveness, risk taking and autonomy (Dess & Lumpkin 2005). However, most studies focus only on three dimensions (innovativeness, proactiveness and risk taking) particularly in the EO-performance research (Hughes & Morgan 2007). Moreover, recent studies have focused only on a partial analysis of the construct (Kropp et al. 2008). Therefore, studying all the five dimensions of entrepreneurial orientation in relation to business performance will become a crucial objective of this study in ascertaining whether all dimensions affect the same level of intensity toward Takaful agency's business performance. This is in line with suggestion by Vora et al. (2012) who exerted that it is important for an organization to identify which dimension of EO is crucial in the EO developmental study. Moreover the link between entrepreneurial orientation and firm performance has remained inconsistent (Karacaoglu et al. 2013). As most studies on entrepreneurial orientation had been conducted in developed countries such as US and the UK, it is vital to conduct research in developing countries like Malaysia which has different business environment and management style. Based on the research gap discussed, this study will examine the effect of the five dimensions of entrepreneurial orientation on the performance of Takaful agency in Malaysia. Resource-based view (RBV), which is one of the most widely used theoretical perspectives in strategic management (Newbert 2007), is used in this study because it is particularly expedient in identifying the determinant factors of firm performance (Amit & Shoemaker 1993) and competitive advantage (Barney 1991).

## LITERATURE REVIEW

### ENTREPRENEURSHIP AND ENTREPRENEURIAL ORIENTATION (EO)

Entrepreneurial concept has attracted several researchers to propose its appropriate definition (Davidsson et al. 2002). A study on entrepreneurship is multi-faceted in view that it spans many disciplinary boundaries, and adopts different theoretical perspectives, unit of analyses and methodologies which lead to various definitions and conceptualizations (Schaper & Volery 2007). Gurbuz and Aikol (2009) exerted that entrepreneurship is an important personal and organizational phenomena for any organization regardless of its size. Several scholars focus on performance criteria in which an entrepreneur is regarded as a driver of innovation that resulted in economic development, progress, and growth (Schumpeter 1942); and an innovative activity is a decisive factor in entrepreneurship (Acs & Audretsch 1990). Other scholars also view entrepreneurship from behavioural perspective (Davidsson 2006); ability to recognize and create opportunities (Alvarez et al. 2010), orientation towards seeing opportunities (Krueger & Day 2010), as well as individual characteristics and attributes affecting entrepreneurial decision (Shaver 2010).

In addition, Miller and Friesen (1983) stated that entrepreneurial firms have higher propensity towards product marketing, innovation, risky ventures and proactive innovations. Most researchers credited Miller (1983) for his contributions at initiating entrepreneurial orientation activities even though he did not use the term entrepreneurial orientation in his initial writings on the topic. Before the term entrepreneurial orientation was introduced, over the years previous research used different labels for the entrepreneurial orientation phenomenon, for example, entrepreneurial mode (Mintzberg 1973), entrepreneurial style (Khandwalla 1976), strategic posture (Covin & Slevin 1989) and entrepreneurial strategy making (Li et al. 2005). Lumpkin and Dess (1996) later introduced the concept of entrepreneurial orientation which refers to the process, practices and decision making activities that lead to new entry. Entrepreneurial orientation can also be defined as the strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions (Rauch et al. 2009: 762).

There are five developed dimensions of Entrepreneurial Orientation, namely innovativeness, proactiveness, competitive aggressiveness, risk taking and autonomy (Dess & Lumpkin 2005). Those dimensions have been consistently used in the literature (Lyon et al. 2000; Miller 1983; Rauch et al. 2009). It is suggested that not all the dimensions of entrepreneurial orientation have a direct or positive effects on firm performance (Lumpkin & Dess 1996); thus, it is necessary to assess the relative impact of each dimension of entrepreneurial orientation (Kraus et al. 2012). Although it is noted that the sub-dimensions of entrepreneurial orientation vary independently with

performance, majority of past studies had combined the dimensions of entrepreneurial orientation (Lumpkin & Dess 1996). In the meta-analysis research conducted by Rauch et al. (2009), only 25% (13 out of 51) of the articles included in the analysis employed the multidimensional approach of entrepreneurial orientation. Hence, in this study multidimensional entrepreneurial orientation measures are used.

#### BUSINESS PERFORMANCE

Prior literature on the measurement of performance revealed that there is no consensus among the researchers on the appropriate measures of business performance. The mutually agreed definition of performance is yet to be found (Andersen 2010). This is because it is a multidimensional concept (Lumpkin & Dess 1996), and has been conceptualized from divergent perspectives (Ramayah et al. 2011). Therefore, various measures were used to tap into performance indicators across different studies (Combs et al. 2005; Venkataraman & Ramanujam 1986; Vij & Bedi 2012). Andersen (2010) categorized performance in terms of what is being measured and how it is being measured. Other researchers categorized performance into financial measure such as sales growth and non-financial measures, for example the satisfaction levels of customers, employees and other stakeholders (Venkataraman & Ramanujam 1986).

Generally, there are two approaches in measuring performance: objective and perceptual (subjective) approaches (Andersen 2010). Most studies of EO are based on perceptual performance data (Andersen 2010). Many previous studies had found that the perceptual performance of a company is positively related to actual performance (Venkataraman & Ramanujam 1986). In addition, in the absence of suitable objective measures, perceptual measure is suggested (Day & Westley 1988).

#### HYPOTHESES DEVELOPMENT

There has been a significant increase in studies that are related to entrepreneurial orientation and performance. This is because it is found that entrepreneurial orientation is essential for a firm's growth (Covin et al. 2006; Soinen et al. 2011), profitability (Lumpkin & Dess 2001) and overall performance (Rauch et al. 2009). Previous research had identified that firms with owners who have strong entrepreneurial characteristics are successful businesses (Tajeddini 2010; Zahra 1991). As mentioned, this study employed the five dimensions of entrepreneurial orientation namely innovativeness, proactiveness, risk taking, competitive aggressiveness and autonomy in relation to performance. The relationships of these five entrepreneurial orientation dimensions are discussed as follows.

Innovativeness is the degree of organization's new ideas adoption which is relatively earlier than any other members of the system (Avlonitis & Tzokas 1994). It is also an engagement in creativity and experimentation

by introducing new products or services as well as technological leadership via research and development (R & D) (Rauch et al. 2009). Rauch et al. (2009) even argued that an organization needs to seek out new opportunities especially if it operates in volatile environment in which it may face shortened product and business model lifecycles. Organization may benefit by adopting innovativeness while taking risks in its product market strategies (Miller & Friesen 1982). Moreover, the organization's efforts in anticipating market demand and aggressively position new market offering will lead to its strong performance (Ireland et al. 2003). Thus, the following hypothesis is postulated:

H<sub>1</sub> Innovativeness will exert positive influence on business performance of Takaful agency in Malaysia

Another dimension of entrepreneurial orientation is risk taking; which is described as entrepreneurs taking bold actions by venturing into the unknown, borrowing heavily, as well as utilizing resources to venture in uncertain environments (Rauch et al. 2009). Even though many studies support the relationship between risk taking and superior performance, they did not necessarily produce the same findings (Wiklund & Shepherd 2005). Meanwhile, other studies had concluded that tried-and-true strategy may lead to high performance but riskier strategies lead to larger performance variation (McGrath 2001). Therefore, the following hypothesis is proposed:

H<sub>2</sub> Risk taking has a positive influence on business performance of Takaful agency in Malaysia

Proactiveness is defined as a firm's propensity to aggressively and proactively compete with its rival (Yeoh & Jeong 1995). Introducing new market offering earlier than competitors and acting in anticipation of future demand to create change and shape the environment characterized a proactive firm (Rauch et al. 2009). Proactiveness will contribute to firm's sales particularly in stable competitive environment (Kuivalainen et al. 2010), and it also seen as the initiative adopted by firms to continuously search for opportunities (Slater & Narver 1994), as well as respond towards market changes (Venkataraman 1989). Moreover, proactive firm has the abilities to create first-mover advantage by targeting premium market segments, charging high prices and adopting 'market skimming' strategy (Zahra & Covin 1995). Study has shown a positive relationship between firm's proactiveness and its business performance (Miller 1983). Hence, it is hypothesized that:

H<sub>3</sub> Proactiveness will exert positive influence on business performance of Takaful agency in Malaysia

Competitive aggressiveness is described as the intensity of an organization's abilities to perform better than its competitors (Kuivalainen et al. 2010); and it is characterized by aggressive responses to competitive threats (Rauch et al. 2009), and competitors' actions



(Lumpkin & Dess 2001). Even though Lumpkin and Dess (2001) did not find any direct significant relationship between competitive aggressiveness and organizational performance, and only few studies have hypothesized a linkage between competitive aggressiveness and organizational performance particularly at international level, the dimension is still seen as a part of positive entrepreneurial concept (Kuivalainen et al. 2010). Thus, it is postulated that:

H<sub>4</sub> Competitive aggressiveness has a positive influence on Takaful agency's business performance in Malaysia

Autonomy is described as the effectiveness of employees' degree of decision making ability relating to their work performance (Hornsby et al. 1993), and the degree of independent actions undertaken by entrepreneurial leaders or teams directed in effectuating and realizing a new venture (Rauch et al. 2009). An organization needs to empower its employees to make decisions about their work, and avoid criticizing them for making mistakes when being innovative (Nasution et al. 2011). Study by Ndubisi & Iftikar (2012) asserted that autonomy has a positive relationship with organizational performance. In accordance to the literature review, we propose the following hypothesis:

H<sub>5</sub> Autonomy has a positive influence on business performance of Takaful agency in Malaysia

Based on an extensive and critical literature review as discussed in previous section, we applied these principles in the context of Takaful agency. The proposed model in Figure 1 specifies the dimensions of entrepreneurial orientation namely innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy. The model suggests that all the five dimensions of entrepreneurial orientation influence business performance of Takaful agency. In the following section, we discuss the research methodology particularly the data collection method, sampling and measurements.

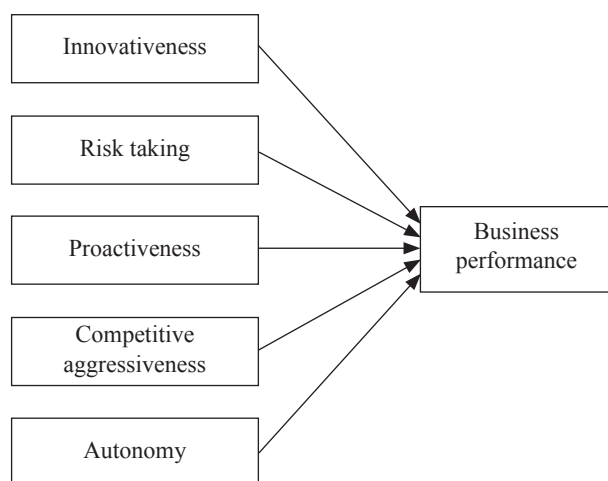


FIGURE 1. Conceptual framework

## RESEARCH METHODOLOGY

### SAMPLING DESIGN AND DATA COLLECTION PROCEDURES

This research adopted purposive sampling in which Takaful Agency managers were the respondents whose criterion meets the purpose of the study. The registered Takaful agencies in Malaysia were chosen as the target respondent for this study due to several reasons. Firstly, the agency-based distribution is identified as a relatively more efficient form of distribution and fast gaining ground in the Takaful industry (Halim 2012). Secondly, the majority of Takaful operators in Malaysia are adopting Wakalah-based model, thus it is becoming another important reason to study the agencies' business performance since this *Shariah*-compliant Takaful model is less controversial and gaining more popularity (Razaleigh et al. 2012). Thirdly, Takaful agents play important roles in the industry and Malaysia's economy, as evidenced by the tremendous growth of Takaful agent from around 74,000 in 2010 to more than 100,000 in 2011 (Bank Negara Malaysia 2012). Malaysia is chosen because the country is becoming a global Takaful leader whereby it has a relatively high ratio of average gross written contributions per Takaful operator, averaging US\$20 million of contribution in 2010, which is approximately 27 percent of the global market (Annuar 2005).

A cross-sectional research was employed for this study and self-administered questionnaires were distributed to Takaful agency's manager who own and manage their own agencies located within Kuala Lumpur, Wilayah Persekutuan Putrajaya and Selangor. Kuala Lumpur and Selangor were selected because most Takaful operators' head offices and Takaful agencies' offices are located within these areas (Bank Negara 2013). Moreover, Selangor was selected because it is the most populous state with a population of 5.46 million of people (Department of Statistics 2010). Additionally, Wilayah Persekutuan Putrajaya was chosen because it recorded the highest population growth rate for the period of 2000-2010 (Department of Statistics 2010). Therefore, the Takaful agencies are most likely to operate in these states due to high number of potential customers.

About 800 questionnaires were distributed to three main Takaful operators namely Etiqa, Takaful Malaysia and Takaful Ikhlas. Based on the sampling design, 227 questionnaires were returned, showing a response rate of 28.38 percent. This response rate is consistent with the argument by Osuagwu (2006) whereby due to the confidentiality of some of the information requested, a high response rate might not be possible. Out of 227 questionnaires received, only 211 questionnaires were suitable for data analysis. Out of 211 respondents, 62.6 percent of respondents have their Family Takaful businesses registered under Etiqa and remaining 30.3 and 7.1 percent registered under Takaful Ikhlas and Syarikat Takaful Malaysia, respectively. 72 percent of the respondents have been in operation for more than five years, and only 28 percent of them have been operating

less than five years. Majority of the respondents registered their agencies under sole proprietorship and only 3.3 percent being partnership. Most of the Takaful agencies in this study had less than five staff (77.3 percent) and the remaining 19.0 percent had 6 to 10 staff; and only 3.8 percent with more than 10 staff. It shows that majority of Takaful agencies can be categorized as small business (SME Corp 2014).

MEASURE

Table 1 illustrates the measures designed to test the research hypotheses. Measurement items were either

adopted or adapted from related studies to suit the local context and purpose of study (Gu et al. 2008). Then, a survey instrument was composed based on the measurement items plus items designed to collect respondent demographics. All questions were measured on a 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree, whereby respondents indicated their degree of agreement or disagreement with a series of statements except for business performance; the scale used ranging from 1 = greatly decreased, 3 = same as before, to 5 greatly increased.

TABLE 1. Research measurement

Measurement Items	Sources
<p>Proactiveness</p> <ul style="list-style-type: none"> <li>• My Takaful agency adopts creative methods of running business ahead of competitors</li> <li>• My Takaful agency markets new products ahead of competitors</li> <li>• My Takaful agency adopts technological capabilities ahead of competitors</li> <li>• My Takaful agency continuously seeks opportunities such as new market related to the present operation</li> <li>• My Takaful agency continuously seeks opportunities such as new customer related to the present operation</li> <li>• My Takaful agency continuously monitors market trends</li> <li>• My Takaful agency continuously identifies future needs of customers</li> <li>• My Takaful agency constantly seeks opportunities to improve our business performance</li> </ul>	<p>Chang et al. (2007) and Ndubisi &amp; Iftikhar (2012)</p>
<p>Innovativeness</p> <ul style="list-style-type: none"> <li>• My Takaful agency has a strong intention to encourage and stimulate product-market innovation</li> <li>• My Takaful agency has a strong intention to encourage and stimulate administrative innovation</li> <li>• My Takaful agency has a strong intention to stimulate creativity and experimentation</li> <li>• My Takaful agency has innovative initiatives which are hard for competitors to imitate successfully</li> <li>• My Takaful agency makes dramatic innovation in process technologies as a routine process</li> <li>• My Takaful agency actively seeks innovative ideas</li> <li>• My Takaful agency encourages innovation</li> <li>• Innovation is readily accepted by management of my Takaful agency</li> </ul>	<p>Chang et al. (2007), Hurley &amp; Hult (1998), Tajeddini (2010)</p>
<p>Competitive Aggressiveness</p> <ul style="list-style-type: none"> <li>• My Takaful agency adopts a price-cutting strategy to enhance competitive position</li> <li>• My Takaful agency assumes an aggressive position to face market challenges</li> <li>• My Takaful agency is copying the business practices of successful competitors to enhance competitive position</li> <li>• My Takaful agency's business is intensely competitive</li> <li>• In general, my Takaful agency takes a bold approach when competing</li> <li>• My Takaful agency tries to undo the competition as best as we can</li> </ul>	<p>Chang et al. (2007)</p>
<p>Risk Taking</p> <ul style="list-style-type: none"> <li>• My Takaful agency treats uncertainty as a challenge</li> <li>• Takaful agents are encouraged to venture into unexplored territories</li> <li>• My Takaful agency accepts the reality that certain suggestions may fail when implemented</li> <li>• My Takaful agency emphasizes opportunity for success rather than chances for failure</li> <li>• My Takaful agency views a new venture as learning experience</li> <li>• My Takaful agency takes bold and wide-ranging acts to achieve the company's objective</li> <li>• My Takaful agency encourages risk taking behaviour</li> </ul>	<p>Nasution et al. (2011), Wong (2012)</p>
<p>Autonomy</p> <ul style="list-style-type: none"> <li>• Employees of my agency perform jobs that allow them to make changes in the way they perform their tasks</li> <li>• Employees of my agency are given freedom and independence to decide on their own of how to go about doing their work</li> </ul>	<p>Hughes &amp; Morgan (2007)</p>

Continue

Continued

Measurement Items	Sources
<ul style="list-style-type: none"> <li>• Employees of my agency are given authority to act alone if they think it is in the best interests of the business</li> <li>• Employees of my agency have access to all vital information</li> <li>• My Takaful agents perform jobs that allow them to make changes in the way they perform their tasks</li> <li>• My Takaful agents are given freedom and independence to decide on their own of how to go about doing their work</li> <li>• My Takaful agents are given authority to act alone if they think it is in the best interests of the business</li> </ul>	
Performance <ul style="list-style-type: none"> <li>• Number of complaints</li> <li>• Financial performance</li> <li>• Sales growth</li> <li>• Productivity</li> <li>• Customer satisfaction</li> <li>• Employee satisfaction</li> <li>• Agent satisfaction</li> </ul>	Ramayah et al. (2011)

## DATA ANALYSIS

## VALIDITY AND RELIABILITY

The PLS-SEM analysis involved a two-step approach (Hair et al. 2011; Chin 2010). The first step involves the evaluation of the measurement model (i.e. outer model); and followed by the evaluation of the structural model (i.e. inner model). The evaluation of a measurement model involves the assessments of its internal consistency reliability, indicator reliability, convergent reliability, and discriminant reliability (Hair et al. 2011). Internal consistency reliability was assessed by using Cronbach's alpha and composite reliability where both assessments measuring the homogeneity of items (Sekaran 2003).

The outer or measurement model shows the relationships between a construct and its indicators. Since all constructs were measured using reflective indicators, the measurement model was assessed by looking at individual item reliability, internal consistency and discriminant validity. First, the individual reliability was evaluated by examining the loadings of the measures with the construct they intend to measure. Using a rule of thumb of accepting items with loadings of 0.7 or more (Chin 2010), it was found that several indicators did not reach the level of acceptable reliability. Thus, the eliminated indicators are PRO3, AUT4, INNO2, INNO4, CA1, BP1 and the remaining indicators are shown in Table 2.

TABLE 2. Reliability and convergent validity

Construct	Indicator	Loading	AVE	Composite Reliability	Cronbach's Alpha
Autonomy	AUT1	0.779	0.669	0.924	0.901
	AUT2	0.818			
	AUT3	0.809			
	AUT5	0.906			
	AUT6	0.770			
	AUT7	0.820			
	Competitive Aggressiveness	CA2			
CA3		0.853			
CA4		0.861			
CA5		0.884			
CA6		0.830			
Innovativeness		INNO1	0.822	0.706	0.935
	INNO3	0.838			
	INNO5	0.807			
	INNO6	0.859			
	INNO7	0.875			
	INNO8	0.839			

Continue

Continued

Construct	Indicator	Loading	AVE	Composite Reliability	Cronbach's Alpha
Proactiveness	PRO1	0.688	0.600	0.909	0.882
	PRO2	0.622			
	PRO4	0.760			
	PRO5	0.865			
	PRO6	0.814			
	PRO7	0.843			
	PRO8	0.755			
	Risk Taking	RT1			
RT2		0.751			
RT3		0.728			
RT4		0.760			
RT5		0.697			
RT6		0.842			
RT7		0.694			
Business Performance	BP2	0.817	0.655	0.919	0.895
	BP3	0.834			
	BP4	0.786			
	BP5	0.769			
	BP6	0.796			
	BP7	0.852			

Table 2 also shows that the internal consistency reliability of the measurement model is high as shown by Cronbach's alpha values of 0.901 (Autonomy), 0.895 (Business performance), 0.913 (Competitive aggressiveness), 0.917 (Innovativeness), 0.882 (Proactiveness) and 0.873 (Risk taking). Similarly, the composite reliability values also show high internal consistency reliability with values ranging from 0.935

to 0.902. As convergent validity was satisfied, the discriminant validity was inspected. Using Fornell and Lacker (1981) criterion, Table 3 provides evidence that all correlations between the dimensions were lower than their respective AVE (Average Variance Extracted) square root estimates. Discriminant validity was therefore established.

TABLE 3. Discriminant validity

	AUTO	BP	CA	INNO	PRO	RT
Autonomy	<i>0.818</i>					
Business Performance	0.497	<i>0.810</i>				
Competitive Aggressiveness	0.565	0.560	<i>0.861</i>			
Innovativeness	0.650	0.546	0.806	<i>0.840</i>		
Proactiveness	0.459	0.602	0.765	0.714	<i>0.768</i>	
Risk taking	0.685	0.510	0.797	0.801	0.634	<i>0.754</i>

Note: AUTO = autonomy, CA = competitive aggressiveness, INNO = innovativeness, PRO = proactiveness, RT = risk taking, BP = business performance.

Diagonal represents the square root of the AVE and the off-diagonal represent the correlations

In addition, the loadings and cross loadings for the remaining indicators in the outer model were also examined and the loading of each indicator on its assigned latent variable is greater than all of its cross-loadings. Therefore, discriminant validity at the indicator level was established. Next, the significance of the model's structural path was examined. For this, bootstrapping (n = 211, sample = 500) was applied. The critical value for a one-tailed test is 1.645 (significance level = 5%).

## FINDINGS

Table 4 shows the summarized result of the proposed structural model with regard to the path coefficients standard error and t-statistics. Essentially, the findings also verified whether the hypotheses were supported or not. There were two supported hypothesized links whilst the remaining three were non-significant.

TABLE 4. Hypotheses testing result

	Path Coeff	S.E	t-stats	Sig.	Decision
AUTO -> BP	0.170	0.082	2.074	**	Supported
CA -> BP	-0.010	0.098	0.105	n.s	Not supported
INNO -> BP	-0.018	0.109	0.161	n.s	Not supported
PRO -> BP	0.380	0.079	4.834	**	Supported
RT -> BP	-0.054	0.121	0.443	n.s	Not supported

Note: \*\* p < 0.05, n.s. not significant

Specifically, the non-significant links are H<sub>1</sub>, H<sub>2</sub> and H<sub>4</sub>. The supported hypotheses are H<sub>3</sub>, and H<sub>5</sub>. The findings show that H<sub>3</sub>: proactiveness will exert positive influence on business performance of Takaful agency in Malaysia with ( $\beta = 0.380$ ). H<sub>5</sub> is supported whereby autonomy has a positive influence on business performance of Takaful agency in Malaysia with ( $\beta = 0.170$ ). Basically, the acceptable level of R<sup>2</sup> depends on research context (Hair et al. 2010). This study shows measurement model with R<sup>2</sup> values of business performance is 0.497. Based on Cohen (1988), the rule of thumb for R<sup>2</sup>: 0.26 (substantial), 0.13 (moderate) and 0.02 (weak). Since research in Takaful is relatively new as the industry itself is still new (Jayaraman

2014), the R<sup>2</sup> value of 0.497 is considered substantial (Cohen 1988).

Next, Table 5 displays the effect size  $f^2$  of the significant paths in determining whether a change in the independent latent variable has a substantial influence on the dependent latent variable through the change in R<sup>2</sup>. The results are consistent with the size of path coefficient estimates shown in previous table since the higher the  $f^2$ , the greater the influence of the independent construct on the dependent construct. According to Cohen (1988),  $f^2$  is assessed as 0.02 (small), 0.15 (medium) and 0.35 (large). It is shown in the table that  $f^2$  for all constructs is zero or larger than zero specifically  $f^2$  for proactiveness, and autonomy is small.

TABLE 5. Effect size  $f^2$ 

Constructs	R <sup>2</sup> excluded	Effect Size $f^2$	Rank
Proactiveness	0.452	0.0895	Small
Competitive Aggressive	0.497	0.0000	None
Risk taking	0.496	0.0020	None
Autonomy	0.486	0.0219	Small
Innovativeness	0.497	0.0000	None

Next, predictive relevance,  $Q^2$ , was calculated to test whether the model is able to adequately predict each endogenous latent construct's indicators (Chin 2010). Using blindfolding procedure (omission distances  $d = 7$ ), cross-validated redundancy measures of  $Q^2$  were obtained. Table 6 shows the predictive relevance,  $Q^2$  and its effect

size  $q^2$ . If  $Q^2$  values are greater than zero, this means that the model has predictive relevance and if the value is zero and below, it indicates a lack of predictive relevance (Hair et al. 2014). Therefore, the model has predictive relevance since the  $Q^2$  score is greater than zero (Chin 2010; Hair et al. 2014).

TABLE 6. Predictive relevance,  $Q^2$  & effect size,  $q^2$ 

Constructs	$Q^2$	$Q^2$ excluded	Effect Size $q^2$	Rank
Business Performance	0.319			
Proactiveness		0.287	0.047	small
Competitive Aggressiveness		0.319	0.000	none
Risk taking		0.319	0.000	none
Autonomy		0.307	0.018	small
Innovativeness		0.319	0.000	none

## DISCUSSION AND IMPLICATIONS

The findings from the study show that there was no direct relationship between innovativeness and Takaful

agency's business performance in Malaysia. This finding is consistent with past research whereby innovativeness is not necessarily related to an organization's business performance (Kraus et al. 2012). In addition, Rhee et



al. (2010) exerted that innovativeness is an action-based capacity that cannot enhance performance per se. In other words, it may not have direct influence on performance. To the author's best knowledge, this is the first time the concept of innovativeness is studied among Takaful agencies in Malaysia. Takaful agencies generally play roles as intermediaries for Takaful operators, whereby they are not involved in new product or service innovation and development.

Tajeddini (2011) argued that no strong consensus exists about the innovation process for service firms even though innovation research is growing. Moreover, many theoretical models and embedded concepts have been developed to understand processes of product innovation, but to apply those models and concepts in service industries is still in question (Tajeddini 2011, 2010).

The finding in this study also shows proactiveness has positive relationship with Takaful agency's business performance in Malaysia. This finding is consistent with past research; thus showing that proactiveness has positive relationship with business performance (Miller 1983), specifically for sales growth, ROS and profitability (Lumpkin & Dess 2001). This finding is also consistent with the research by Gurbuz and Aykol (2009) who found significant relationship between proactiveness and performance particularly growth in the context of small businesses. Generally, a proactive firm that actively searches for new opportunities, anticipate future problem, and aim to be ahead of competitors is consistent with resource-based theory. Gurbuz & Aykol (2009) even mentioned that a proactive organization needs to emphasize proactiveness within its boundaries whereby its employees need to be proactive too.

This study also shows that there is positive direct relationship between autonomy and Takaful agencies' business performance in Malaysia. The result of this study is consistent with the study by Ndubisi and Iftikar (2012). The study asserted that autonomy has a positive relationship with organizational performance. In the context of Takaful agency, agents are given the autonomy to make decision in promoting and marketing Takaful products. Generally, magnitude of independent actions and decision making among agents and employees is helping them to carry out their duties effectively; in which eventually leads to work performance.

With regard to risk taking, there is no direct relationship with Takaful agency's performance in Malaysia. The finding is consistent with past studies whereby the relationship between risk taking and superior performance does not necessarily produce the same findings (Wiklund & Shepherd 2005). There are also other studies which conclude that tried-and-true strategy may lead to high performance but riskier strategies lead to larger performance variation (McGrath 2001). Past research also showed that small firms are taking calculated risks (Gurbuz & Aykol 2009). Moreover, high performing firms can still be entrepreneurial and risk-averse (Kreiser et al. 2002).

This study shows that there is no direct relationship between competitive aggressiveness and Takaful agency's business performance. This finding is consistent with the study by Khalili et al. (2013) which showed no relationship between both constructs. Other research also found no such relationship (Kuivalainen et al. 2010). Accordingly, it is suggested by Lumpkin and Dess (2001) that competitive aggressiveness and proactiveness will vary in their relationship to performance. A possible cause of this finding is that the Malaysian Takaful industry allows the agencies to promote more than one Takaful's brand of products belonging to more than one Takaful operator. For example, a Takaful agency is allowed to market motor Takaful policy from various Takaful operators.

Many past research had focused on service firm (Stevens & Dimitriadis 2005), but there is little knowledge known about the effect of innovativeness, customer orientation and entrepreneurial orientation on service firm's performance (Tajeddini 2010). Thus, this study has contributed empirical findings on the influence of entrepreneurial orientation towards the performance of Takaful agency. It was found that only autonomy and proactiveness have a direct influence on Takaful agency's performance in Malaysia. The identification of which dimension of EO is crucial for an organization is important in the EO developmental study (Vora et al. 2012).

Generally, the study will help the industry to position its products appropriately as the religious compatibility, which is the foundation of *takaful* products, is crucial to many Muslims (Sharif 2012). Specifically, the study helps Takaful agencies to adopt suitable EO dimensions in their business strategies to achieve business performance. *Takaful* operators via their respective agencies need to create positive perception among customers who are looking for fair and ethical products and systems. According to Halim (2012), distribution of *takaful* products via agency-based system is regarded as a more efficient form of distribution as it allows *takaful* operators to reach wider customer base at lower cost. Agency-based system is regarded as more effective in penetrating non-Muslim customer base (Halim 2012). Thus, it is very crucial for *takaful* operators to equip their agents with various skills including entrepreneurial knowledge such as being proactive and innovative. *Takaful* agency should also be given more freedom (within *Syariah*), autonomy and sufficient support to explore business opportunities in expanding *takaful* market distribution coverage. Moreover, *takaful* operators also need to educate their agents on the importance of positioning *takaful* based on *Syariah* values in facing Muslim customers. This is because religion is very dear to the heart of a Muslim (Sharif 2012).

#### LIMITATIONS AND FUTURE RESEARCH

The present study presents some limitations. First, it relies on a sample drawn from a limited geographical area in Malaysia. The purposive sampling technique may not represent the entire population and therefore, requires

replication. This study relates to the Takaful agency's manager of Takaful agencies located within Kuala Lumpur, Wilayah Persekutuan Putrajaya and Selangor which prevents generalization of the results. Second, this study relies on survey-based, cross-sectional data, and thus causality of the relationships between predictor and criterion variables cannot be claimed. However, our interpretation of the findings is based on theory and prior research. Thus, it is recommended to conduct future research that employs qualitative method. Employing qualitative methodology may help researchers to uncover more about the industry specifically *Takaful* agencies' business strategies in Malaysia. Third, this research used data from manager of Takaful agencies, thus social desirability bias could be present. To minimize the bias, this study tested for common method bias (Lindell & Whitney 2001) and found that it was not a threat to the study's findings. Based on the limitations of this study, future research might seek to further verify or extend the proposed model within different study contexts. To sum up, even though this study has several limitations, it constitutes a step towards understanding the relationship between the dimensions of entrepreneurial orientation and business performance.

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