

The impact of Entrepreneurial Orientation on Business Performance of Small and Medium Enterprises of Sindh, Pakistan

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Abstract

Entrepreneurial Orientation (EO) is considered as a mean for attaining progress and often higher performance. The paper analyzes the association of Entrepreneurial Orientation with Business Performance of Small and Medium Enterprises operating in Sindh. The study examined the role of five dimensions of EO towards performance of these firms. To attain purpose of the research paper, the data was collected through a questionnaire from 395 entrepreneurs and owners of SMEs in Sindh Province, Pakistan. Quantitative research method has been used to gauge relationship of Entrepreneurial Orientation with Business Performance of Small and Medium Enterprises of Sindh. For extracting results from data, Smart PLS research analysis software has been employed to generate results and analyze them. Path Analysis has been made to evaluate hypotheses. The research suggests 38.9% variance in business performance is due to entrepreneurial orientation constructs altogether. In terms of dimensions of Entrepreneurial Orientation; Risk Taking, Autonomy and Competitive Aggressiveness were found to be significant and positive whereas Innovativeness and Proactiveness were found insignificant. The research concludes positive relationship of Entrepreneurial Orientation with business performance.

Key words: Entrepreneurial Orientation (EO), Small and Medium Enterprises (SMEs), Business Performance

Introduction

The economic evolution and growth of the economy are highly related to the potential and output of SMEs. These firms have a vital contribution to the economic growth of Pakistan (Haleem et al., 2017). Similarly, progress in technology is highly influenced by the performance of SMEs in Pakistan. They have also played a vital role towards social and economic wellbeing of Pakistan.

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The outcome and performance of SMEs attempts to eradicate poverty and bring progress in the economy (Imran et al., 2018)

In today's competitive and dynamic business environment, SMEs face difficulties gaining access to resources and problem of attaining resources has posed a major threat to the performance of small and medium enterprises. Their survival and growth are based upon developing strategic resources by engaging in entrepreneurial behavior. In developed economies, the entrepreneur's internal capabilities (Entrepreneurial Orientation) have become a source of strategic resources for achieving business performance. The relationship of EO with business performance has been examined and has received significant consideration in the developed world. However, a little attention is paid by scholars on the impact of EO on SMEs performance in developing countries like Pakistan, simultaneously the research of EO is based on limited variables i.e Risk Taking, Innovation and Proactiveness without incorporating Autonomy and competitive aggressiveness in context of Pakistan. So, the relationship of Entrepreneurial Orientation and SMEs Performance in Pakistan needs to be evaluated to contribute towards entrepreneurial studies and entrepreneurship literature.

The underlying aim of study is to observe and inspect the influence of Entrepreneurial orientation and Social capital on the performance of SMEs. Many factors have been identified by researchers which influence performance of small businesses but here the focus is on impact of innovativeness, risk taking, autonomy, competitive aggressiveness and proactiveness along with network resources of entrepreneur on performance of SMEs.

The research contributes in different domains. It includes theoretical, practical and policy perspective. In theoretical domain, attempt has been made to augment and contributes in knowledge and understanding of EO. In terms of practical domain, the study is aimed to contribute towards importance of EO in business practices and strategy formulation for SMEs owners and prospective entrepreneurs. The study aims to assist them to formulate their strategies by evaluating their importance in business. In policy perspective, research is significant for different stakeholders like small and Medium Enterprises Development Authority (SMEDA) and Government bodies to understand nature and dynamics of SMEs performance in perspective of EO.

Literature Review

Entrepreneurial Orientation

It is based on firm's strategic orientation and on entrepreneurial features of decision-taking style, processes and practices (Wiklund & Shepherd 2005). It aims to attain competitive advantage for firms and helps to deliver superior performance. According to Miller (1983), firm which is involved in development of innovative product, initiates risky undertakings and proactive in approach to competes competitors is considered as Entrepreneurial. On the basis of this definition, researchers agreed on three features of Entrepreneurial Orientation which is based upon introducing innovation, taking risk and being proactive. This is one dimensional approach built according to study of Miller (1983). Other approach is based on multi-dimensions which extended its characteristics by including Autonomy and Competitive aggressiveness to originally proposed constructs of EO. Recent Study conducted by (Anderson et al., 2015), presented Entrepreneurial orientation as multidimensional comprised of Entrepreneurial behavior which included innovation and proactiveness.

There are two theoretical approaches which explain and emphasize its role towards firm, one is the Resource based view and another is Dynamic capability perspective. According to Resource based view, Entrepreneurial Orientation might be taken as a diverse and unique immaterial resource or organizational competence which is important in recognizing and capitalizing firms prospects and new opportunities. This resource and capability are profoundly integrated in organizational practices and may not be simply adopted by opponents (Barney, 1991; Lonial and Carter, 2015). Owing to above mentioned qualities and features, Entrepreneurial Orientation can help in gaining competitive advantage and superior performance (Madsen, 2007, Grande et al., 2011)

In addition to RBV, the Dynamic Capability perspective emphasizes on capturing the vital nature of capabilities which are important in gaining competitive advantage for uncertain market situation (Teece et al., 1997, Barreto 2010, Teece 2007). As per perspective, EO can be aligned with dynamic capabilities to seek opportunities and act accordingly in the market and reconstruct tangible abilities to preserve competition and ameliorate business performance.

For Current Study, Entrepreneurial orientation has been defined in terms of five essentials: Being Innovative, Proactive, taking risk, Allowing Autonomy and being Competitive aggressive

Dimensions of Entrepreneurial Orientation

Innovativeness

Innovativeness involves adopting creativity; it is organizational propensity to adopt innovation. The process of innovation enables businesses to bring new products and service (Amodu& Aka, 2017). Innovation also benefits towards redefining and revitalizing business (Lumpkin & Dess, 1996). Innovation was initially pointed out by Schumpeter (1942) in the entrepreneurial process. According to him, innovation is introduction of novel products and services. Based on this view, it is considered as a process to pursue and providing support for novel ideas, processes and development (Lumpkin and Dess 1996). Process innovation deals with internal abilities, it focuses on development of processes and internal capabilities due to technological advances. Market innovation is identification of new markets and target segments to increase sales of firms. The innovation in technology and offerings may be employed by organizations to follow new prospects (Wilkund& Shepherd, 2005). The concept of innovation in the firm supports entrepreneurs for survival and progress in times of rapid technological changes and during intense competition in the market (Damanpour& Wischnevsky, 2006)

Proactiveness

Proactiveness is taking initiative, foresee opportunities and engaging in evolving markets (Entrialgo et al., 2000). It induces to gain first mover advantage for firms by recognizing and pursuing future demands of consumers (Lumpkin and Dess, 1996). So, objective of proactive firms tends to exploit imminent opportunities and to be pioneer in the market (Wilkund& Shepherd, 2005). It concerns with significance of taking initiatives in the process of innovation and making strategies. The proactiveness facilitates firms to attain competitive advantage by foreseeing prospects of the marketplace (Lumpkin and Dess 1996)

According to Hughes and Morgan (2007), the contribution of proactiveness towards progress and development of firm differs on the basis of life cycle of firm, proactiveness facilitates firms mostly in its infancy stage and also helps emerging firms to achieve their performance goals whereas its contribution in later stages or stage when firms get stable subsidies.

Risk taking

It represents uncertainty that occurs due to actions of entrepreneur and firm (Lumpkin and Dess, 1996; Low and MacMillan, 1998) and encompasses undergoing different marketplaces by devoting resources with indeterminate results (Rauch et al., 2009). Risktaking is the uncertainty that results from performing entrepreneurially. By risk taking it means devoting resources of the firm in the projects whose outcome is not certain or project which is more prone towards failure (Morris et al. 2008). Firms adopting a risk taking behavior tempts to pursue uncertainty and make quick decision making which often leads to amelioration of business performance whereas firms who do not follow risk taking attitude often refrains from being innovative and procrastinates in making difficult decisions (Eisenhardt, 1989)

Competitive aggressiveness

It is an enterprise's tendency to compete and encounter their opponents in the market for attaining competitive position and to beat the competitors of the industry. It refers to enterprise's counter towards competitor's challenges (Lumpkin and Dess, 1996). It can be a direct aggressive behavior over competitor or it can take a form of aggressiveness based on reaction. Competitive aggressive firms challenge competitors in the market by attacking on their strengths and by bringing innovation (Davidson, 1987). Moreover, firms with aggressive behavior tend to rely on offense rather defending in response to competitor strategy. It helps them to ameliorate performance because they exploit opportunities aggressively and better utilize resources of firms (Lumpkin & Dess, 1996).

Autonomy

It is described as a freedom to personnel in the organization to motivate them to be self-directed, allowing them to follow novelty and business prospects. It specifies the tendency toward providing favorable circumstances for growth and ensuing execution of innovative ideas. Firm is considered as an autonomous that encourages taking new initiatives and ideas without hindering individual creativity (Lumpkin and Dess, 1996). According to Prottas (2008), autonomy is a tool for entrepreneur to motivate employees to make judgements and contribute positively towards work place which will ultimately result in better firm performance. Firms who promote autonomy tend to have environment of ease of communication, decentralization and dissemination of key information (Spreitzer, 1995)

Business Performance

Due to changing market environment, varying product and business cycle, firms need to continually strive for business prospects and chances so businesses may gain advantage and achieve business performance from adopting notion of Entrepreneurship styles (Rauch et al., 2009). It is capacity of the firm to attain objectives along with goals set by shareholders. Performance needs to be evaluated to review progress in attainment of goals (Smith & Reece, 1999). There are numerous factors on which performance may be measured, it can be business profitability, market Effectiveness, Customer Development and satisfaction, Product Efficiency and quality of processes (Wood, 2006; Laura et al., 1996). There are two approaches to business performance, one is subjective and other is objective. Subjective approach is based on evaluating relative performance of firm over competitors and in industry where as objective approach is based on measurement of performance on numbers and figures of financial data (Dess& Robinson, 1984). The Literature on examining association between EO and business performance has preferred subjective approach for assessment (Wall et al., 2004) as it helps researchers to make evaluation across industry and competitors.

Conceptual Frame work

The conceptual framework of EO and Performance was primarily presented by Covin and Slevin (1991). This is widely studied and remained focus of researchers in developed countries but hardly in emerging countries, specifically Pakistan. As per the studies of different researchers including Wilkund, 1999, Wiklund& Shepherd, 2003 and studies of Zahra 1991 and 1995, the positive link has been found and recognized between these two studied variables. Still some dimensions have weak or no relationship when they are analyzed in isolation so their link is termed as ambiguous in various researches, because number of studies have found slight or no link in EO-Performance link (Hart, 1992). Covin (1994) also analyzed relationship between these two variables and found no significant link in their studies based on developed economy. Moreover, Slater & Narver (2000) could not associate positively between EO dimensions and profitability. Innovativeness characterizes ability of firm to involve in and facilitate novelty and experimentation that results in innovating unique offerings (Lumpkin & Dess, 1996). Huges and Morgan (2007) conducted study on evolving small businesses in United Kingdom and discovered that innovativeness greatly contributed in progress and success of young firms. Risk taking is defined as an inclination towards adopting and implementing new ventures and

activities which involve uncertainty or the outcome of that activities are not certain (Lumpkin&Dess, 1996). An association of risk taking and firms performance is not clear, researchers have argued that traditional way of performing routine activities could boost business performance on average basis, however firms with risk taking attitude could bring about better long-term performance. Huges and Morgan (2007) studied effect of EO each dimension on performance of business and it was found that each dimension has different impact; Autonomy is not associated to performance of businesses.

From this, it may be inferred that impact of EO dimensions varies based on industry, businesses and overall economic conditions and each dimension has different impact.

So following hypotheses have been derived from the research model.

H1: The Innovativeness has significant impact on Business Performance

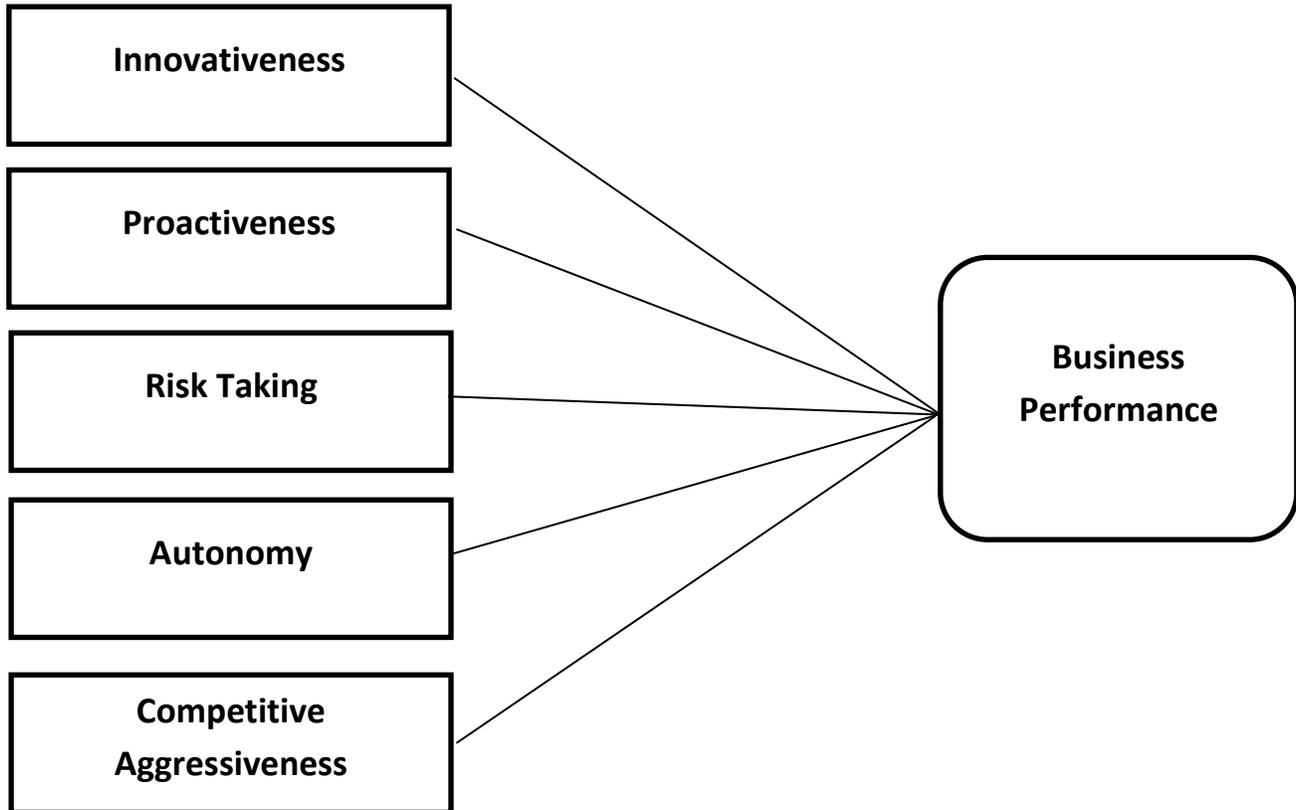
H2: The Proactiveness has significant impact on Business Performance

H3: The Risk-taking has significant impact on Business Performance

H4: The Autonomy has significant impact on Business Performance

H5: The Competitive Aggressiveness has significant impact on Business Performance

Research Model



Source: Lumpkin and Dess (1996)

Methodology

Data Collection and Sample Representation

The focus of research was firms who were working in Sindh, Pakistan. In this category, firms were selected on the basis of strength of employees and per annum revenue turnover. As per strength of workers, firms with personnel no more than 250 were surveyed and in context of per annum revenue turnover, establishments with up to 250 Million annual turnovers participated in the survey. The firms' selection was based on nonprobability judgmental sampling, the enterprises surveyed were selected from all major cities of Sindh including Karachi and all divisional headquarters of Sindh. The respondents were entrepreneurs (proprietors) and involved in higher management of the firm. There are around 3.0 million registered such establishments in Pakistan. From 3.0 Million, 18% are located in Sindh as per last Economic Census of Pakistan (Zafar & Mustafa, 2017). The final sample contained 395 observations that were found complete

and included for the analysis. The size was selected using Krejcie and Morgan (1970) technique in deriving sample calculation from large population size.

Research Tool

The primary data has been collected through questionnaire from entrepreneurs and managers of the firm. The questionnaire is practice of data collection which engages respondents to provide information in response to questions set by researcher (Devaus 2002).

In terms of time horizon, it is cross sectional since data has been collected at single point of time. The self-administered questionnaire was generated based on different scales used in research on different variables. The questionnaire was developed through google forms and respondents were asked to fill online questionnaire on prescribed link but due to less response on online forms. Questionnaires were mailed on address of respondents after their consent and then mostly data was collected by personally meeting the respondents in Sukkur Division and Karachi.

Construct Measures

The study is based on variables of EO and Business Performance. The literature was reviewed concerning these variables and based on literature; the structured and validated scales were adopted.

Entrepreneurial Orientation Scale

EO was measured on scale established by Huges and Morgan (2005). All dimensions of Entrepreneurial Orientation were measured on five-point scales. The Respondents were asked to provide opinion with one, being strongly disagree to five, being strongly agree.

Business performance Scale

The firm performance scale was adopted from Vorhies and Morgan (2005) construct, measuring the aggregated performance index based on respondent's response on 5-point Likert scale. The questionnaire is based on subjective approach of measuring performance by comparing performance of respondents to their competitors. The questionnaire is based on current profitability, customer satisfaction and market effectiveness.

Data Analysis Technique

The researcher has adopted Statistical techniques including inferential statistics. Partial least square based on structural Equation Modeling (PLS-SEM) method is adopted to investigate and

measure research model's hypotheses. PLS-SEM can handle numerous independent variables, even when multicollinearity exists. It may also be executed as a regression model, predicting one or more dependent variables from a set of one or more independent variables. PLS-SEM may also be executed as a path model (Khoi and Van Tuan, 2018).

Data Analysis and Results

Outer loadings

The outer loadings represent association among items of latent and their observed indicators (Sarstedt, Ringle, & Hair, 2017). Loadings above 0.70 suggest that construct explain more than 50% of the indicator's variance, thus providing acceptable item reliability. In this study, all the items of risk have more than 0.7 outer loadings; similarly all other dimensions of entrepreneurial orientations and their items have outer loadings of more than 0.7 thus representing strong relationship between latent and observed indicators.

Construct	Dimensions	Code	Outer Loadings
Entrepreneurial Orientation	Risk Taking	EORT1	0.777
		EORT2	0.906
		EORT3	0.914
	Innovativeness	EOINN1	0.907
		EOINN2	0.936
		EOINN3	0.909
	Proactiveness	EOPRO1	0.732
		EOPRO2	0.907
		EOPRO3	0.910

	Competitive Aggressiveness	EOCA1	0.907	
		EOCA2	0.936	
		EOCA3	0.909	
	Autonomy	EOAU1	0.900	
		EOAU2	0.914	
		EOAU3	0.902	
		EOAU4	0.911	
		EOAU5	0.859	
		EOAU6	0.807	
	Contract	Code	Outer Loadings	
	Business Performance	PCP1	0.828	
PCP2		0.824		
PCP3		0.778		
PCP4		0.763		
PME1		0.713		
PME2		0.837		
PME3		0.817		

	PME4	0.785
	PCS1	0.828
	PCS2	0.741
	PCS3	0.709

S. No	Variables	Cronbach's Alpha	No. of Items
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	PCS4	0.694
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Internal Consistency Reliability

Reliability is the extent to which an assessment tool produces stable and consistent results (Hair et al., 2014). It denotes the degree to which a measure is free from random measurement errors. The generally used technique to evaluate and check reliability of the study scale is Cronbach's alpha which is calculated by employing average correlation between items (Hair et al., 2010). The values of alpha coefficient range from 0 to 1 and the alpha coefficient of 0.7 and more than 0.7 represents significance internal reliability

01	Entrepreneurial Orientation			
		Risk Taking	0.836	03
		Innovation	0.906	03
		Competitive Aggressiveness	0.777	03
		Proactiveness	0.82	03
		Autonomy	0.943	06
02	Business Performance		0.934	12

All the dimensions of entrepreneurial orientation have more than 0.70 alpha coefficients thus suggest better internal consistency. Other variable which is dependent variable 'Business Performance' has also alpha coefficient value of 0.934 which falls in range of acceptance of reliability.

Validity

Reliability is essential necessary but it alone is not adequate. In order to have reliable model, there must be validity as well. It denotes to degree to which construct measures what it is supposed to measure (Hair et al., 2014)

Convergent Validity

It deals with the convergent validity of each construct measure. Convergent validity is the extent to which the construct converges to explain the variance of its items. The metric adopted to

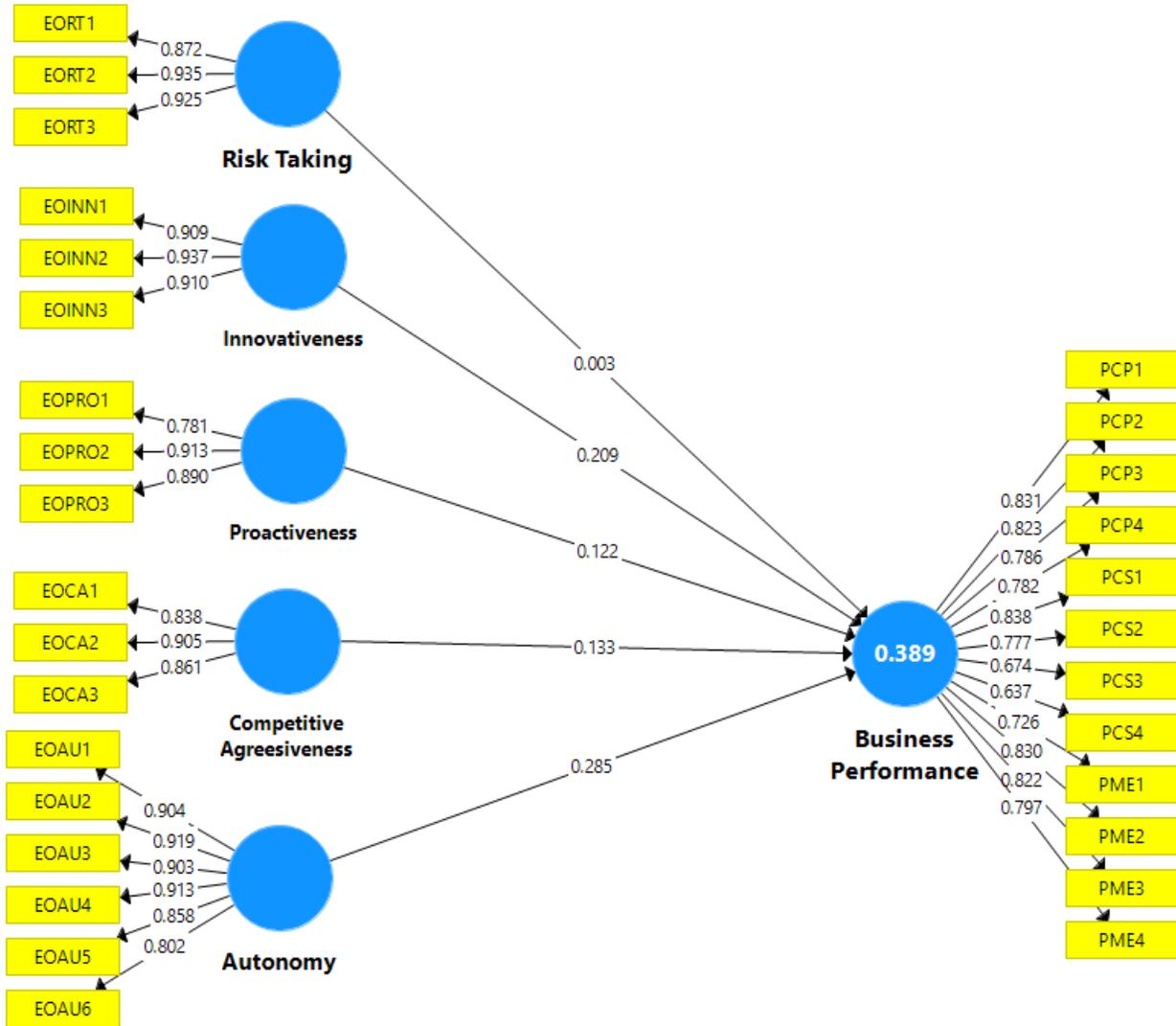
examine construct's convergent validity is the **average variance extracted (AVE)** for all items on each construct. AVE should be more than 0.50 (Hair et al., 2019). Value more than 0.50 suggests that construct explains at least 50 per cent of the variance of its items.

The value less than 0.50 shows that error variance is greater than the explained variance.

In the current study all the studied variable has AVE more than threshold level of 0.5. The dimensions of EO and business performance all have average variance extracted more than 0.5 thus representing greater validity.

Variables	Average Variance Extracted (AVE)
Risk Taking	0.753
Proactiveness	0.729
Innovation	0.841
Competitive Aggressiveness	0.691
Autonomy	0.770
Business Performance	0.584

Research Model



Coefficient of Determination- -R square

It is most commonly used measure to evaluate structural models in partial least square -SEM (Hair et.,al, 2016). It measures the variance. The five dimensions of EO altogether explain 38.9% variance of the endogenous construct which is business performance. This suggests 38.9% variance in business performance is due to entrepreneurial orientation variables.

	R Square	R Square Adjusted
Business Performance_	0.389	0.381

Path Coefficients

The PLS bootstrapping is the method through which relationship among constructs can be ascertained by evaluating Path coefficients and concerned T-Statistics. The relationship of all independent variables of entrepreneurial orientation with business performance is provided based on T-statistics and p-values. The results show that relationship of innovation and proactiveness is not significant with business performance where as other three dimensions of EO namely risk taking, autonomy and competitive aggressiveness have significant relationship with business performance.

Table 4.15 Path Analysis

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
EOAU -> Business Performance	0.191	0.183	0.066	2.877	0.004
EOCA -> Business Performance	0.220	0.223	0.079	2.792	0.005
EOINN -> Business Performance	0.089	0.089	0.071	1.245	0.213
EOPRO -> Business Performance	0.003	0.001	0.057	0.052	0.959
EORT -> Business Performance	0.138	0.132	0.070	1.984	0.047

Summary of Hypothesis Results:

The study is based on five hypotheses. These hypotheses are related to dimensions of Entrepreneurial Orientation. Out of five, two hypotheses are not supported and rejected where as three hypotheses have been supported and accepted based on results.

Table 4.16 Summary of Hypothesis Results

Hypothesis Testing Results					
Hypothesis	Path	(β)	**t-value	***p-value	Result
H1	EORT \rightarrow Business Performance	0.131	1.984	0.047	Supported
H2	EOINN \rightarrow Business Performance	0.09	1.245	0.213	Not Supported
H3	EOPRO \rightarrow Business Performance	0.013	0.052	0.959	Not Supported
H4	EOCA \rightarrow Business Performance	0.188	2.792	0.005	Supported
H5	EOAU \rightarrow Business Performance	0.120	2.877	0.004	Supported
<p>* Beta Coefficient (β)</p> <p>** $t \geq 1.96$</p> <p>*** $p \leq 0.05$</p>					

Discussion and Conclusion

It can be inferred and reported that there exists relationship between EO and business performance of SMEs as three variables out of five are found to be significant and have positive relationship. Taking of Risk, Posturing Competitive Aggressiveness and Bringing Autonomy in firms are significantly related to business performance. The results support studies of Lumpkin and Dess (1996) who signaled that each dimension of EO may not contribute or it is not essential that each EO dimension is important for enhancing business performance.

The conclusion of the study is that EO dimensions of Risk Taking, Competitive Aggressiveness and Autonomy significantly & positively impacts business performance of SMEs. The performance is not linked with innovativeness whereas EO studies which were conducted in Developed economies disclose that organizations demonstrating high performance in the market are more prone towards innovation process. This proves dynamics of developed markets and developing economies are different. The rejection of dimension of innovation demonstrates this difference. Another dimension proactiveness was also found to be insignificant in Sindh, this represents entrepreneurs don't consider proactiveness important for improving business performance. They adopt their policies to follow markets instead of being proactive in initiating market strategies.

Limitations

The utmost efforts have been made to conduct study with proper research techniques and sampling framework but still the research is vast and current study has certain limitations. The study has geographical limitations as the research is based on province Sindh of Pakistan but research data has been collected from divisional headquarters of province and from some of the district. Still data could not be collected from some of the districts of Sindh owing to time and financial constraints.

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