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Research

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## LEARNING ORIENTATION AND PERFORMANCE: THE INTERACTION EFFECT OF ENTREPRENEURIAL ORIENTATION

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### Abstract

*The current study examines the impact of learning orientation (LO) on organizational performance and also the moderating role of entrepreneurial orientation (EO) on the relationship between LO and organizational performance among the small and medium enterprises (SMEs) in Pakistan. This questionnaire survey was conducted among 213 managers/ owners of manufacturing SMEs. Previous studies on LO in combination with EO have been conducted in large organizations in developed economies. Studying the relationship between LO and performance and moderated by EO in manufacturing SMEs in a developing economy like Pakistan, this research attempts to fill this gap. The findings reveal that there exist a positive relationship between LO and organizational performance. The findings also demonstrate that the effects of LO on organizational performance are positively moderated by EO. The paper also includes research implications and possible future directions.*

**Keywords:** Pakistan, Small and medium-sized enterprises, learning orientation, entrepreneurial orientation, organizational performance, manufacturing industry

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### Introduction

Examining the relationship between strategic orientations such as, LO and EO, is considered as one of the emerging issues in recent times for large and specifically small businesses (Aloulou & Fayolle, 2005; Grinstein, 2008). Strategic orientations are the core capabilities (Teece, Pisano, & Shuen, 1997; Zhou, Yim, & Tse, 2005) and, organizational resources (Hoq & Chauhan, 2011) that help and facilitate to attain and retain the competitive advantage and superior firm performance. Prior studies (Atuahene-Gima & Ko, 2001; Bhuian, Menguc, & Bell, 2005; Hakala, 2011, 2013) on strategic orientation contend that it will not be sufficient to provide quality performance if the effect of a single orientation is examined. Furthermore, the results will suffer from lacking of multi-dimensional approaches with more complex nature towards strategic orientation (Hakala & Kohtamäki, 2010; Hyung & Dedahanov, 2014). Therefore, a balanced approach towards several orientations simultaneously will definitely create and promote a more advanced and acceptable organizational culture and will results in greater firm performance with sustainable competitive advantage (Baker & Sinkula, 2009a; Bhuian, et al., 2005; Hakala, 2011; Noble, Sinha, & Kumar, 2002; Thourmrunroje & Racela, 2013).

A thorough review of the extant literature on strategic orientation reveal that less attention has been paid to LO in combination with EO (Hakala, 2011), particularly in the context of manufacturing SMEs. Majority of the studies have been conducted on large scale organizations, and investigated the direct effect of LO and EO on performance (Barrett, Balloun, & Weinstein, 2005a, b; Kropp, Lindsay, & Shoham, 2006; Liu, Luo, & Shi, 2003). For example, Liu *et al.* (2003) examined the impact of market orientation (MO), EO and LO on competitive advantage on 304 state owned Chinese companies and found that organizations with higher MO exhibit higher LO and concentrate more on entrepreneurial oriented behavior that results in attaining optimum level of performance. Kropp *et al.* (2006) investigated the interrelationships between EO, MO and LO, with export venture performance and found that taking these orientations individually may yield poor performance at the initial stages of business ventures. On the other hand, few studies tested LO as mediator on the relationship between EO and OP. For example, a recent study by Hakala (2013) empirically investigated the mediating effect of LO on the EO and performance (profitability and growth) relationship in 196 Finnish

software companies and found that LO mediates the EO and performance relationship. Study by Wang (2008) who conducted study on 213 medium-to large firms in the UK has reported similar results. Due to scant research on the moderating effect of EO on the LO-performance linkage, Hussain et al. (2015) called for empirical investigation on the moderating role of EO between the relationship of organizational performance and LO in order to have a more holistic configuration of strategic orientations for improved organizational performance.

Thus the present study is presumed to enhance the understanding of the researchers regarding these relationships and thereby filling the existing gap of understanding in two ways. Firstly, majority of the studies on LO and EO or in combination have investigated the direct relationship of each construct with business performance in larger organizations, while this study attempts to examine the moderating role of EO in the LO-OP relationship in manufacturing SMEs. Secondly, prior studies on the topic have been found in developed economies, while this study is conducted in a developing country's context.

### **Literature Review**

#### *Learning Orientation*

The strategy literature has highlighted LO as the process through which learning is accepted by members of an organization (Rhee, Park, & Lee, 2010). LO can be defined as, "a process of information acquisition, information dissemination and shared interpretation that increases both individual and organizational effectiveness due to the direct impact on the outcomes" (Kaya & Patton, 2011, p. 206). LO enhances the management's ability to raise questions on the effectiveness of ongoing practices and beliefs which are supposed to increase the performance of an organization (Argyris & Schön, 1978). LO contributes to the creation and assimilation of knowledge which results in generation and sharing the knowledge within the organization and broadens the vision of the organizational members. It strengthens the learning norms within the organization and encourages the members to learn new knowledge in order to increase the organizational capabilities for creating superior performance. Thus, LO promotes the learning behavior of the

organization and ensures its long term survival and growth (Baker & Sinkula, 1999a). Organizational learning in applied form helps an organization to be actively involved in intelligence generation, intelligence dissemination and responding to market changes thus results in converting an organization culture into a more advanced market and entrepreneurial oriented culture (Kalmuk & Acar, 2015). The attitude and inclination of the individuals toward the process of learning play an important role in its effectiveness. Slater and Narver (2000), are of the view that an organization may change the attitude of the employees by taking some steps like the employees can be directed toward the learning process by introducing new mental models, ingenuousness, knowledge sharing, supporting the workers to try innovative methods to get their work done and discarding the obsolete methods. LO indicates that an organization is undertaking steps for increasing its learning capabilities. It helps organization to devise a framework for creation and sharing of knowledge to enhance its capabilities and perform better (Hult & Ketchen, 2001). LO of an organization is reflected by open mindedness, shared vision and commitment to learning. These values enable an organization to better understand and learn the long term assumptions and beliefs and, create a sense of common purpose (Celuch, Kasouf, & Peruvemba, 2002; Kalmuk & Acar, 2015).

#### *Learning orientation and Performance relationship*

A number of researchers (e.g., Baker & Sinkula, 1999; Bing & Zhengping, 2011; Celuch, et al., 2002; Kaya & Patton, 2011; Slater & Narver, 1995; Suliyanto & Rahab, 2012) have developed consensus that LO facilitates an organization to acquire knowledge that can be helpful in understanding the varying needs of the customers. Reviewing critically the available literature on LO and firm performance, Bing and Zhengping (2011) concluded that there exists a mediating role of LO on the EO-performance linkage. Many studies have highlighted that there exists a positive relationship between LO and overall business performance (Foley & Fahy, 2004; Frank, Kessler, Mitterer, & Weismeier-Sammer, 2012; Hakala, 2013; Keskin, 2006; Michna, 2009; Sinkula, Baker, & Noordewier, 1997; Spicer & Sadler-Smith, 2006). While, few studies indicated the indirect relationship and reported that LO influences innovation performance that in turn increases the organizational performance (Lee & Tsai, 2005; Rhee et al., 2010). Similarly, Keskin (2006) found that there exists a direct

significant positive relationship between LO, innovation and firm performance in developing countries. Liu *et al.* (2003) by utilizing data from emerging economy of China conducted an exploratory study and found that organizations with higher level of LO emphasizes more on EO, and are in better position to accomplish higher level of organizational performance than those organizations where LO is implemented at lower level. Hakala (2013) found that LO mediate the effects of EO on profitability in software industry while the effects of LO on EO and growth is somehow different. Kropp *et al.* (2006) conducted their study in South Africa on 143 managers and 396 entrepreneurs and found that organization focusing individually on LO or EO may yield poor performance at the very early stages of international business ventures. Barrett *et al.* (2005b) conducted a study on 267 from 23 US non-profits organization and reported that LO correlates with EO and this interaction produce synergistic effect that improves the organizational performance. On the bases of the above discussion, the following hypothesis is formulated;

*H1:* Learning orientation significantly influences the organizational performance.

*EO as moderator on LO-Performance relationship*

By definition EO is considered as strategic orientation. This orientation reveals the propensity of firms' risk taking, proactiveness and innovativeness (Covin & Slevin, 1989; Miller, 1983). Results of the previous studies on strategic orientation demonstrate that there exists correlation between EO and LO on the one hand and with performance on the other (Barrett *et al.*, 2005a, b; Hakala, 2011; Kropp *et al.*, 2006; Liu *et al.*, 2003). Some studies indicated that investigating the direct relationship of EO with performance presents an incomplete picture (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). Opportunity seeking attitude creates knowledge and the proper interpretation of it turn the entrepreneurial activity into a triumphant business activity (Wang, 2008, Hakala, 2013). When organization exhibits proactive behavior in pursuit of new market opportunities, market intelligence is generated and a set of knowledge is developed. This knowledge is shared within an organization that questions the basic assumptions of the organization it has made about its business and environment (Baker & Sinkula, 1999b), thus, EO may be important

to enhance the effects of knowledge creation process on performance in organization (Li, Huang, & Tsai, 2009; Wolff, Pett, & Ring, 2015).

However, prior studies on LO in combination with EO have been conducted in larger organizations in developed countries. For example; Wang (2008) conducted his study on medium to large UK based companies. The results of this research reveal that there is mediating effect of LO between business performance and EO. Liu, Luo, & Shi (2002) also reported the similar mediating effect of LO on organizational outcome (marketing program dynamism) by conducting his study on state owned enterprises in China. More recently, Sikora, Nybakk, & Panwar, (2015) found that EO and LO as independent variables have positive and significant positive impact on financial success of forest contracting firms in Poland. Majority of these studies have taken LO as mediator. None of these studies putforward the inverse relationship; that is, the moderating effect of EO on LO-firm performance relationship; a research area that has largely been ignored so far.

Moreover, compared to larger organization, SMEs face shortage of financial resources, employ different innovation and entrepreneurial skills, use small portion of marketing research, therefore the findings derived from larger organization cannot be generalized to SMEs (Lonial and Karter, 2015). The current study is supposed to add to the existing literature on strategic management by investigating the possible moderating effects of EO on the relationship of LO and organizational performance in the context of SMEs in a developing country like Pakistan.

In the light of the above arguments, the following hypothesis is formulated;

*H2:* Entrepreneurial orientation moderates the relationship of learning orientation and organizational performance.

## **Research Methods**

### *Sampling and data collection*

The population of the study was consisted of all the active members of the Sialkot Chamber of Commerce and Industry (SCCI) of

the Sialkot city of Punjab province, Pakistan. According to SCCI, there are 8000 active members of the chamber who are involved in manufacturing activities. 367 sample size was drawn by using Krejcie and Morgan (1970) method of sampling calculation. Respondents for this study were selected through simple random sampling using lottery technique. A questionnaire along with a cover letter was posted to the selected respondents. Out of the total, only 239 were received wherein only 213 were found complete in all respects and therefore included in the analysis. This made the final response rate of 58%.

#### *Measurement Tools*

All measures were adapted from previous studies and were aligned with the contextual aspects of the study. The questionnaire was consisted of close ended statements and the responses were rated on a five-point Likert scale (1 = “strongly disagree” to 5 = “strongly agree”).

#### *Learning Orientation*

The LO construct was measured through 15 items scale developed by Sinkula et al. (1997). LO was divided into three dimensions namely open mindedness, commitment to learning and shared vision. The total items in the scale were 15 divided as follows: open mindedness (04 items), commitment to learning (05 items) and shared vision (06 items).

#### *Entrepreneurial Orientation*

The scale for this construct was adapted from Lumpkin and Dess (1996). To measure four dimensions of EO namely, innovativeness, competitive aggressiveness, autonomy and risk taking, Lee and Lim (2009) have further improved and validated this scale. For proactiveness dimension the scale was adapted from Miller (1983) which was further developed by Covin and Slevin, (1989), and Naman and Slevin (1993). This scale has also been validated by Wang and Altinay (2012). This scale has 17 items in total: risk taking (03) innovativeness (03), autonomy (03), innovativeness (03), competitive aggressiveness (04) and proactiveness (04).

### *Organizational Performance*

The scale for organizational performance had 20 items in total: innovation (03) adapted from Athanassopoulos *et al.* (2001), service quality (05) adapted from Caruana (2002), customer satisfaction (05), employee satisfaction (04) adapted from Minnesota Satisfaction Scale (MSQ) which is developed by Weiss *et al.* (1967) and growth (03) adapted from Spangenberg and Theron (2004).

### *Validity and reliability*

The principal component analysis was performed on LO which generated one component, and resulted in 60 percent of variance in the items. The reliability was measured keeping in view the threshold of 0.6 and above recommended by Hair, Babin, Money, & Samouel (2003). Cronbach's  $\alpha$  value was found to be 0.874 which was within the acceptable range. The principal component analysis of organizational performance was performed which resulted in one component, explaining 65 percent of the variance in the items. The Cronbach's  $\alpha$  value ( $\alpha = 0.926$ ) of organizational performance was also found within the acceptable range of 0.6 as suggested by Hair *et al.* (2003). A principal component analysis yield one component of EO and resulted in explaining 79 percent of the variance in the items. The Cronbach value of the scale was also found satisfactory (Cronbach's  $\alpha = 0.899$ ).

### *Data Analysis*

To test the hypotheses on LO and organizational performance relationship, Pearson correlation analysis using SPSS version 21.0 was carried out. Simple linear regression was used to measure the dependence of performance on LO, while, for measuring the moderating effect of EO on the relationship of LO and performance, the widely used method of three steps moderation technique of Baron and Kenny (1986) was employed.

### *Regression Models of the study*

To test the direct dependency of the organizational performance on LO, simple regression model was used:

$$Y = \alpha + \beta_1 X_i + \epsilon$$

For testing the moderating effect of EO on the relationship of LO and OP, Baron and Kenny (1986) three steps moderation model was used.

In the first step, independent variable was regressed on the dependent variable for its influence, as shown in equation:

$$Y = \alpha + \beta_1 X_i + \epsilon \dots \dots \dots (1)$$

In the second step, moderating variable was taken as independent variable and its influence was checked on the dependent variable as shown in equation 2.

$$Y = \alpha + \beta_1 Z_i + \epsilon \dots \dots \dots (2)$$

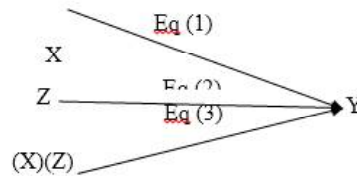
Where Z is the moderator variable and  $\beta$  is its regression weight.

In the third step, interaction term was created with the product of independent and moderating variables and was regressed to check its influence on the dependent variable as shown in equation 3.

$$Y = \alpha + \beta_1 X_i Z + \epsilon \dots \dots \dots (3)$$



*Figure 3.1*  
**Three Steps Moderation Model**



Where, XZ is the interaction term of independent and moderating variable. For moderator to be of significant value, the beta coefficient of the interaction term should be significant that is the significant value of the beta coefficient should be less than 0.05 (Baron & Kenny, 1986; Cohen, Cohen, West, & Aiken, 2013).

### Results

The descriptive analysis in Table 1 shows the mean value = 3.9616 which confirms that Pakistani SMEs are practicing LO strategy and recognize its advantage for achieving the organisational performance. In order to investigate the relationships among the variables of the study, as reported in Table 1, the Pearson correlation was performed. Both of the constructs of the study are significantly correlated with organizational performance. The inter-relationship between LO and firm performance ( $r = 0.650$ ,  $p\text{-value} < 0.01$ ) indicates a strong relationship between them. The correlation between the LO and organizational performance is  $< 0.80$  and in line with the study conducted by Jalali, Jaafar, & Ramayah (2014). Before conducting the regression analysis, all the assumptions related to regression were satisfied.

*Table 1:*  
**Correlation analysis of LO, EO and OP**

No.	Variables	Mean	SD	1	2	3
1	Entrepreneurial orientation	3.6323	.54943	1		
2	Learning Orientation	3.9616	.42492	.630**	1	
3	Organizational performance	3.7603	.46575	.761**	.650**	1

Note:  $P < 0.01$  level (2 tailed).

The regression analysis was used to test the hypotheses of the study. The results show the direct effect of LO on organizational performance as well as the moderating effect of EO on the relationship between LO and performance. This analysis is comprised of three steps and reported in Table 2. In step 1, LO ( $\beta = .713$ ,  $t = 12.431$ ,  $p < 0.05$ ) positively and significantly affect the organizational performance. Thus, H1 is supported. The results also indicate LO explain ( $R^2 = .423$ ) 42.3% variation in the organizational performance. Step 2 indicate the inclusion of the EO as moderator demonstrating that the model is significant (F-value = 289.687,  $p < 0.001$ ) and with the  $R^2$  value representing 57.9 percent of variation being explained in the dependent variable. Step 3 depicts the results of the effects of the interaction between the moderator (EO) and the independent variable (LO) on the dependent variable (organizational performance). The results show a significant moderating effect (F-value = 353.671,  $p < 0.001$ ), with the  $R^2$  value reporting that 62.6 percent of the variants are explained. Thus, hypotheses H2 is also supported. The summary of the results of hypotheses testing is reported in Table 3.

*Table 2:*  
**Model Coefficients and Summary for the Constructs**

Step		Standardized beta	R	R <sup>2</sup>	F	Sig. F Change
1	Learning Orientation	0.713	0.650	0.423	154.536	0.000
2	Learning orientation	0.311	0.792	0.627	176.610	0.000
	Entrepreneurial orientation	0.493				
3	Learning Orientation	-.026	0.794	0.630	118.871	0.000
	Entrepreneurial orientation	0.124				
	Interaction term	0.096				

Note: Dependent variable: Organizational Performance

Table 3:

**Summary of hypotheses of the study**

	Hypothesis	Null Hypothesis	Alternate Hypothesis
H1:	Learning orientation significantly influences the organizational performance.	Not Supported	Supported
H2:	Entrepreneurial orientation moderates the relationship of learning orientation and organizational performance.	Not Supported	Supported

**Discussion and Conclusion**

The study under consideration is a quantitative study and the collected data have been analyzed by using quantitative statistical techniques. The correlation results of the study related to LO and organisational performance ( $r = 0.650$ ) demonstrate a strong relationship between the two constructs and support the previous studies that demonstrate a positive relationship between these two variables (Foley & Fahy, 2004; Frank, et al., 2012; Hakala, 2013; Keskin, 2006; Michna, 2009; Sinkula, et al., 1997; Spicer & Sadler-Smith, 2006). The present study's results also indicate that SMEs are adopting LO practices to accumulate knowledge regarding their customers and competitors and using it for enhancing their business performance. The results also confirm and acknowledge the importance of LO for the long run survival and improved performance of SMEs.

Moreover, the results of the current study reveal a strong moderating effect of EO on the LO and performance relationship ( $\hat{\alpha} = 0.112$ ,  $p = 0.000$ ). EO helps firms to create knowledge relating to innovation and performance (McGrath, 2001). Rhee et al. (2010) highlighted that an entrepreneurial firm involves in proactively scanning its external business environment the firm is operating in and this market scanning and opportunity exploration requires learning capability. Keskin (2006) also opined that the new knowledge is created by practicing and maintaining the strategies directed towards the pursuit of information. Continuous commitment of an organization towards learning leads to innovativeness (Rhee, et al., 2010; Wang, 2008) and enhances performance by updating firm's assets and capabilities (Wang, 2008). Embracing EO at higher level increases the firm's commitment to learning to gather the relevant information and

knowledge about the new opportunities (Rhee *et al.*, 2010). Thus, EO through its proactive and risk taking approaches guides and influences LO (Wang, 2008).

The key findings of this research suggest that adopting and implementing LO strategy only may leads to poor business performance. Hence, balancing LO with EO would guarantee improved performance. Thus, firms need to develop a framework based on these two orientations simultaneously in order to ensure their survival in the long run and attain competitive advantage in the cut throat competition prevailing in the market. Pakistan is a developing country and depends largely on manufacturing industries and SMEs in particular for achieving economic development (Akhtar *et al.*, 2015). The entrepreneurial culture of the country is different from those of the developed economies, as majority of SMEs are owned and operated by families that deliberately avoid any risk and thus, concentrate less on proactiveness and innovativion aspects of EO while operating their businesses (Hussain *et al.*, 2016). The results of the current study posit that the respondent SMEs in Pakistan do consider LO being an important component of the business concern and the advantage it holds for improved performance. The findings further reveal that SMEs in Pakistan are rather reluctant to open up to new suggestions either by their own employees or by their customers but are engaged in disseminating the vision and making it possible for all employees to share the vision of the organization and learn from their mistakes. The focus of these SMEs should be more on learning processes that is; to learn from within and outside the organization. The pursuit of learning facilitate the creation of knowledge which helps in developing proactive approach and enables an organizations to be innovative and competitive. The current study empirically verifies that alignment of EO and LO is critical for improved performance and competitive advantage and suggests that SMEs need to strengthen EO to achieve improved organizational performance both in terms of innovativeness and competitiveness.

#### **Limitations and avenues for future research**

The current study encountered a number of constraints and challenges, which may provide guidelines for future research. Organizational performance was measured subjectively based on the

perception of respondents. Organizational performance is normally measured through objective measures like sales and profits. However, the researchers found it difficult to obtain objective data since mostly SMEs in Pakistan are reluctant to share firms' financial data. The present study adopted single informant approach from each organization. The reliability of single informant is questionable, and may possibly results in perceived differences of the organizational extent of LO and EO across various units within the organization. It is suggested that multiple respondents at different managerial levels from a single organization may be opted for data collection and influence of LO and EO on organizational performance may be checked. This study used positivistic approach for data collection and data analysis. This restricts the study, as the data collected only pertains to survey instrument. Future research is advised to be carried out using pragmatist approach for in-depth information and knowledge regarding strategic orientations of the SMEs in both manufacturing and service sectors. Finally, research regarding the investigation of the impact of EO and LO on business performance is scant in hotel industry of Pakistan, therefore, research concentrating on these two variables in relation to business performance is advised to be carried out.

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