

## **The Impacts of Entrepreneurial Orientation on Organizational Performance: Study of Pakistani SMEs**

**Jawad Hussain**, Assistant Professor, Department of Management Studies, University of Malakand. Email: [jawadhussina79@gmail.com](mailto:jawadhussina79@gmail.com)

**Abid Khan**, PhD student, Department of Management Sciences, Qurtaba University of Science & Information Technology, Peshawar.

**Fayaz Ali Shah**, Assistant Professor, Department of Management Sciences, Islamia College, Peshawar. Email: [akhoon47@yahoo.com](mailto:akhoon47@yahoo.com)

### ***Abstract***

*Entrepreneurial orientation has been the area of interest by many researchers in the field of entrepreneurship and management. However, empirical evidences reveal that most of these studies have been conducted in developed countries and have reported mixed results. Analyses on the subject in developing countries are lacking. This study investigates the role of entrepreneurial orientation on firm performance. This study used survey data from a random sample of 213 small and medium sized enterprises (SMEs) located in Sialkot region, Province of Punjab Pakistan. The findings support the hypothesis that entrepreneurial orientation associates with firm performance. This study contributes to the body of knowledge by taking EO as five dimensional construct (innovativeness, risk taking, proactiveness, competitive aggressiveness, autonomy) rather three dimensional construct. and organizational performance comprising of non financial indicators such as customer satisfaction, employees satisfaction, service quality, innovation and growth. The study offers suggestions to policy makers and future directions.*

**Key Words:** Entrepreneurship, management, orientation, development, SMEs performance, innovativeness, proactiveness.

### **Introduction**

Small and Medium Enterprises (SMES) has been the main source of employment creation, economic growth and prosperity in both developed and developing countries (Akhtar *et al.*, 2015; Aziz *et al.*, 2014; Ismail *et al.*, 2014). SMEs represent more than 90 percent of the total number of firms worldwide, with employment of approximately around 70 percent and contribution of about 60 percent to GDP (Ayyagari *et al.*, 2011). Pakistan's economy is largely SME driven economy where these SMEs represent almost 93 percent of all the enterprises, employing nearly 80 percent of the non-agricultural labour force (Malik *et al.*, 2011). However the contribution of SMEs to gross domestic product (GDP) towards Pakistan's economy is only 30 percent, which seems to be insignificant (Khalique *et al.*, 2011; Kureshi *et al.*, 2009; Mirani and Shah, 2012; Subhan *et al.*, 2014). This is despite various policies, measures and support programs which the government of Pakistan has initiated and implemented in order to stimulate the growth and improve the competitiveness of the SME sector (Hafeez *et al.*,

2012). Since SMEs represent the major portion of the industrial sector in most of the developed and developing countries, it is more important to study the behavior of this important sector and practice such strategies that facilitate the achievement of growth and greater performance the sustainable economic growth (Jabeen and Mahmood, 2014). Entrepreneurial orientation is key strategic orientation that when adopted and practiced leads the organization towards greater organizational performance and sustainable competitive advantage (Hakala, 2013; Wiklund and Shepherd, 2005). It entails specific organizational-level behavior inclined towards risk-taking, self-directing activities, engaging in innovation and reacting proactively and aggressively to out-perform the competitors in the marketplace and improve the firm performance (Hakala, 2011; Lumpkin and Dess, 1996; Olaniran, 2016). Entrepreneurial orientation is a viable strategy that ensures the firm' survival and enable an organization to make effective responses to the external competitive and challenging business environment. Previous researches have highlighted that firms that adopt entrepreneurial oriented strategy are better able to leverage the market opportunities and ensure their long term survival and growth (Lumpkin and Dess, 1996; Zhao *et al.*, 2011).

Dynamic, strong and efficient SMEs are acknowledged to play their key role in creating competitive advantage and facilitating the process of economic development (Batool and Zulfiqar, 2013). Being key drivers to economic growth, there is a need to study the behaviour of SMEs in order to provide insight on ways to enhance competitiveness and improve performance (Hafeez *et al.* 2012). Also, there is a need to focus on the manufacturing sector of the SMEs, since this sector has the potential to promote economic development and competitiveness. The share of manufacturing sector to GDP rose in the last 10 years from 14.7% in 1999-2000 to 18.7% in 2010-11 (Hafeez *et al.*, 2012; Khan and Khalique, 2014). In the rapidly changing business environment, firms need to adopt entrepreneurial approach is necessary (Aziz *et al.*, 2014), as it helps firms to prosper and grow in competitive and uncertain environments and facilitate the deployment of knowledge-based resources in discovering and exploiting the market opportunities prior to the competitors (Olaniran, 2016). Previous researches have highlighted that higher levels of entrepreneurial orientation enable firms to better identify and grab business opportunities in a way that differentiates them from non-entrepreneurial firms (Covin *et al.*, 2006; Gathungu *et al.*, 2014; Rauch *et al.*, 2009). Ahmad *et al.* (2013) suggested adopting entrepreneurial oriented approach by SMEs to exploit the potential and benefits of this sector to compete in national and international markets. While a number of studies have investigated the EO-performance relationship, there is a dearth of research investigating the EO-performance relationship within the context of SMEs in developing countries. Thus, the main objective of this study is to investigate the relationship of entrepreneurial orientation and business performance in SMEs operating in a developing economy, like Pakistan. The rest of the paper has been structured as follows; the second section presents a review of the theoretical framework, previous empirical researches and formulation of the research hypotheses. The third section discusses the research methodology, sample and the variables used in the study. The fourth section analyzes the results obtained, while the final section summarizes the main conclusions and discussion of the findings.

## **Literature Review**

### **Entrepreneurial orientation**

Entrepreneurial orientation (EO) is the process of creating strategy that provides the basis for entrepreneurial decisions and actions for the organization (Rauch *et al.*, 2009). Lumpkin and Dess (1996) define EO as the policies and practices which enable a firm to adopt an entrepreneurial position when facing new business opportunities. Miller (1983) argued that entrepreneurial organizations are engaged in product/market innovation, and are concerned with risky ventures and are the first to come up with proactive innovations beating the competitors to the bushes. Miller (1983) proposed three dimensions of EO: innovativeness, risk taking, proactiveness. Innovativeness refers to the ability of the organizations willingness to support and engage in new ideas, novelty, experimentation and creative processes that may possible result in new products, services or processes (Lumpkin and Dess, 2001). Risk taking refers to “the degree to which managers are willing to make large and risky resource commitments ... in the interest of obtaining high returns by seizing opportunities in the marketplace” (Lumpkin and Dess, 2001, p. 144). Proactiveness is the ability of a firm to take the initiative and reach the unexplored market, exploit the emerging opportunity and shape the environment of a firm conveniently (Rauch *et al.*, 2009). Lumpkin and Dess (1996) added two new dimensions that also characterize EO, namely competitive aggressiveness and autonomy. According to Lumpkin and Dess (1996) “competitive aggressiveness refers to a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the market-place.” Autonomy refers to the extent to which individuals or team enjoy freedom and able to peruse market opportunities from the initial idea to completion (Lumpkin and Dess, 1996; Lumpkin and Dess, 2001).

### **Entrepreneurial orientation and business performance**

Researchers have developed consensus that entrepreneurial orientation contributes to a firm's performance (Kajalo and Lindblom, 2015; Lumpkin and Dess, 2001; Rauch *et al.*, 2009). Organizations that act entrepreneurially are better able to respond to the challenges posed by external environment and adjust their operations in the cut throat competitive environments (Covin and Slevin, 1989; Hakala, 2013). Entrepreneurial orientation facilitates a firm to proactively scan the external environment and take the benefit of emerging opportunities in the marketplace (Kwak *et al.*, 2013; Wang, 2008).

Previous researches on the investigation on entrepreneurial orientation and performance relationship have highlighted that entrepreneurial orientation is crucial for the long term survival and growth of the organization. As such, the empirical research (Wiklund and Shepherd, 2005) about entrepreneurial orientation reported that entrepreneurial orientation contributes to organizational performances. Mahmood and Ibrahim (2016) conducted their study in Nigeria and found a significant and positive relationship between entrepreneurial orientation and SMEs performance. Hussain *et al.* (2015) analyzed study on the relationship between entrepreneurial orientation and firm performance on Malaysia SMEs and concluded that entrepreneurial orientation is the

key driver of firm performance. Eggers *et al* (2013) reported based a study on 660 SMEs in Austria and found that entrepreneurial orientation is positively related to the SME growth. They argue that if an SME desires to grow, entrepreneurial orientation is needed to fuel these growth aspirations. Likewise, the crucial role of entrepreneurial orientation has been reported in facilitating the attainment of firm performance (González-Benito *et al.*, 2009). Rauch *et al.* (2009) performed a meta-analysis of the relationship between entrepreneurial orientation and business performance. Their study included 51 articles and reported a significant positive relationship between entrepreneurial orientation and organizational performance.

However, entrepreneurial orientation has been reported to have no positive impact on firm performance at all (Slater and Narver, 2000). Walter *et al.* (2006) found that EO is not directly related with business performance. Runyan *et al.* (2008) reported no effect of entrepreneurial orientation on firm performance due to the effect of other independent variables. Swierczek and Ha (2003) found only a partial positive relationship between entrepreneurial orientation and business performance. Kreiser *et al.* (2013) highlighted that the relationship between entrepreneurial orientation and firm performance is non-linear. Some studies posited even a curvilinear entrepreneurial orientation- performance relationship (Dai *et al.*, 2014; Su *et al.*, 2011; Wales *et al.*, 2013). Despite the increasing number of researches investigating the impact of entrepreneurial orientation on organizational performance, the results are inconclusive (Faiz and Ahmad, 2015), depending on the type of performance measure used (Hakala, 2013; Rauch *et al.*, 2009) and difference in the context where the study is investigated (Lumpkin and Dess, 1996). Based on the foregoing discussion, the following hypothesis is proposed:

*H1*: Entrepreneurial orientation has a significant effect on organizational performance.

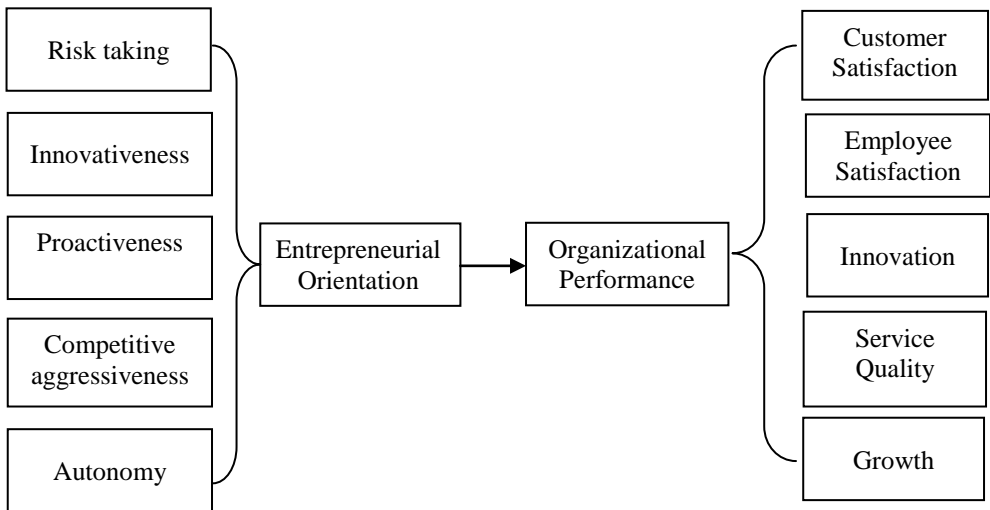


Fig 1: Research Framework

## Methodology

### Sampling and data collection procedures

The present study is conducted in Sialkot region, Province of Punjab Pakistan, which is considered to be the hub of entrepreneurial activity in Pakistan (Hussain *et al.*, 2012; Khan *et al.*, 2010). According to an estimate, there are more than 7000 entrepreneurs in the region (Akhtar *et al.*, 2015). These entrepreneurs are involved mostly in the manufacturing sector belonging to small electrical appliances like fans and related components, garments and apparel, leather goods, earthen ware, sports, silver ware and surgical goods. Sample of 367 owners/managers of these enterprises were part of the study. In case, if owner or manager was not available, the his/her proxy was used to represent the enterprise. These SMEs were registered with Sialkot Chamber of Commerce and Industry (SCCI). Majority of the businesses were owned and operated by families (57.3 %). Out of the total questionnaires mailed to SME owner/managers, 239 questionnaires were collected, 26 questionnaires were found to be incomplete and were thus eliminated because of incomplete information. Thus total of 213 questionnaires were accepted and used for further analysis.

### Measures

This study adopted the five dimensions of entrepreneurial orientation, including risk taking, innovativeness, competitive aggressiveness, proactiveness and autonomy, as proposed by Lumpkin and Dess (1996). Several studies followed five dimensional approach in relation to different performance indicators (Hughes and Morgan, 2007; Lee *et al.*, 2011; Lee and Lim, 2009; Li *et al.*, 2009; Pearce *et al.*, 2010; Zhang *et al.*, 2014). For this study, four dimensions of entrepreneurial orientation namely, risk taking, innovativeness, competitive aggressiveness were measured adapting the scales developed by Lumpkin and Dess (1996) and Lee and Lim (2009). Proactiveness

dimension of entrepreneurial orientation was measured adapting the scale developed by Miller (1983). The scale for proactiveness has been validated by Wang and Altinay (2012). The measurement scale for the present study used 5-point Likert scale where 1 was strongly disagree and 5 was strongly agree to measure the perceptions of the respondents on these five dimensions. There were total 17 items in the scale divided as follows: proactiveness (04 items), risk taking (03 items) innovativeness (03 items) competitive aggressiveness (04 items) and autonomy (03 items). For example, ‘our business undertakes market research in order to identify market opportunities’, ‘we enjoy facing a difficult task from which other people want to keep away’, ‘we always try to develop new products /services which are not offered by competitors’, ‘We watch competitors’ business strategies to react against them promptly’, and so forth.

Firm performance was measured through a subjective approach. Non-financial measures like employee satisfaction, innovation, customer satisfaction, service quality, human resource practices etc are used for measuring performance of an organization. For the study and to manage the scope of the study, non-financial measures of organizational performance like customer satisfaction, employee satisfaction, innovation, quality of service and growth were taken. Growth is normally measured in financial terms but for the current study subjective measure of growth was taken. Subjective approach for data collection was used as generally owner/managers are not willing to provide the information concerning to financial data to outsiders (Aziz *et al.*, 2014; Jabeen and Mahmood, 2014). The perceptions of the respondents were taken on a 5 point Likert scale in which 1 denoted strong disagreement and 5 denoted strong agreement.

## **Data Analysis and Findings**

### **Reliability**

Reliability of an instrument indicates that the internal consistency of items used to measure constructs. It is commonly measured through Cronbach alpha reliability test. If the value of Cronbach alpha is more than 0.6, it is considered good and all items of a construct can be analyzed by summing them up as one measurement (Hair, 2003; Nunnally, 1978). For the present study, reliability of the survey questionnaire has been calculated. The results of the reliability analysis indicate that the Cronbach Alpha achieved for both the construct i.e. entrepreneurial orientation and performance are greater than 0.6 thus making the instrument reliable for further statistical analysis.

Table 1: *Reliability Scores for Variables*

<b>Variables</b>	<b>No. of Items</b>	<b>Cronbach Alpha</b>
Entrepreneurial Orientation	17	0.899
Organizational Performance	20	0.926

### **Sample characteristics**

The results of the demographic analysis indicate that majority of the businesses are owned and operated by males (87.3%), while only handful of respondents were found to be females (12.7%). This shows that the manufacturing sector is male dominated. The education level of respondents indicate that majority of them are bachelor degree holders (54.9%). This is followed by respondents who have attained masters degrees (22.5%) and intermediate or high secondary certificate (18.8%). Respondents who had either attained their high school certificate (matriculate) or below were found to be 3.8%. Business ownership was found to be dominated by families (49.3%) as compared to self ownership (36.2%) or partnerships (14.6%). In response to line of business, majority of the respondents were involved in the manufacturing of small electrical appliances like fans and related components etc. (23.5%). This line of business was closely followed by garments and apparel (22.1%) and leather goods (20.2%). Further analysis of business lines indicate that earthen ware (12.2%), sports (8.5%), silver ware (8%) and surgical goods (5.6%) categories were on lower side of spectrum.

*Table 2 Sample Profile*

	<b>Item</b>	<b>Count</b>	<b>Percent</b>	
Gender	Male	188	87.3	
	Female	27	12.7	
	Total	213	100	
Education	less than matriculate	1	.5	
	Matriculate	7	3.3	
	Intermediate	40	18.8	
	Bachelor	117	54.9	
	Masters	48	22.5	
	Total	213	100.0	
	Business Ownership	Self	77	36.2
		Family	105	49.3
Partnership		31	14.6	
Total		213	100.0	

Line of Business	Surgical Goods	12	5.6
	Leather Goods	43	20.2
	Electrical Appliances	50	23.5
	Earthen Ware	26	12.2
	Silver Ware	17	8.0
	Garments and Apparels	47	22.1

### Testing of hypothesis

Regression analysis was performed to check the effect of predicting variable (IV) Entrepreneurial Orientation (EO) on the criterion variable (DV) that is organizational performance. The results indicate that EO ( $\beta=0.645$ ,  $t=11.359$ ,  $p<0.001$ ) is positively and significantly associated to business performance. Hence, this result supports H1. The result of the study is in line with the previous studies that have reported positive association between entrepreneurial orientation and organizational performance.

Table 3 *Regression Of Entrepreneurial Orientation*

Variables	Adjusted R- square	Beta	F- value	Sig.
Entrepreneurial Orientation	0.577	0.645	85.45	.000*

Sig  $p < 0.001$

### Discussion and Conclusion

Entrepreneurial orientation is a strategic construct indicating the inclination and behaviours of organizations towards opportunity recognition and exploitation. Researchers have indicated that entrepreneurial orientation is a multi-dimensional construct whose dimensions though interlinked vary independently with varying degrees of influence on performance (Fairoz *et al.*, 2010; Kreiser *et al.*, 2002; Lumpkin and Dess, 2001). Further, it has been highlighted that entrepreneurial orientation as a composite variable and its individual dimensions would impact performance differently in different cultural environments and contexts (Kellermanns *et al.*, 2008; Lumpkin and Dess, 1996; Zahra, 2008).

This study examines that how entrepreneurial orientation can affect the business performance of small and medium enterprises in Pakistan. It means that as the entrepreneurial orientation level increases, the degree of business performance also increases. The results of the present study indicate that there exists a strong influence of entrepreneurial orientation of the top management on organizational performance ( $\beta = 0.645$ ,  $p = 0.000$ ). This study is in line with the previous studies that reported significant impact of entrepreneurial orientation on organizational perfor-



mance (Alegre and Chiva, 2013; Covin *et al.*, 2006; Hakala, 2013; Lumpkin and Dess, 1996; Shirokova *et al.*, 2016; Wiklund and Shepherd, 2005; Zhao *et al.*, 2011). All these studies have reported that stronger entrepreneurial orientation of the firms enhances organizational innovation and performance. It means that as the level of entrepreneurial orientation increases, the degree of organizational performance also increases.

The present study only looked into strategic orientations from the SMEs perspective. Research that targets not only business companies but also government departments or organizations and non-profit organizations is suggested to be conducted since strategic orientations result in competitive advantage. Also this study analyzed strategic orientation of SMEs without analyzing the role of government policies and departments involved in developing the framework for SMEs development in the country. It is advised that future research may analyze the role of government policies along with strategic orientations of the SMEs to gather a more in-depth information and knowledge on the SMEs behavior and their competitiveness. It is further advised that other strategic process variables such as human resources and organizational structure be taken into account for analyzing the role of entrepreneurial orientation towards performance. Furthermore this study concentrated on SMEs in one city of Pakistan. The entrepreneurial small and medium organizations are clustered in other cities as well. Therefore, it is suggested that future studies should also include SMEs from other industrial hubs of the country to overcome this limitation. Seventh, the study focused on single informant for data collection. It is highly recommended that multiple respondents from a single organization be selected for data collection to gauge the true nature and effect of entrepreneurial orientation on organizational performance.

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