

Entrepreneurial Orientation and Innovative Performance within Firm: The Moderating Effect of Market Orientation in manufacturing SMEs

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Abstract

Organization has been defined as a combination of many resources that work in coordination to achieve the desired results. Some resources are tangible while some are intangible. The latter ones include Entrepreneurial Orientation (EO) and Market Orientation (MO). Like others, their effective deployment results in improved performance. This study aims at empirically investigate the influence of EO on the performance of Small and Medium Sized Enterprises (SMEs). At the same time, the study will also look at the role of market orientation (MO) as a moderator between the relationship of EO and firm innovative performance. The questionnaire survey for the study was conducted among 213 manufacturing SMEs. The findings of the study reveal that EO positively influence the firm innovative performance. The results also indicate the moderating role of MO in the subject relationship. Majority of the prior studies on EO and MO have been investigated in direct relationship with organizational performance in developed countries. This study thus fills the gap in the literature by examining the moderating role of MO in the EO-performance relationship.

Keywords: Entrepreneurial Orientation; Market Orientation; Innovative Performance; Risk Avoidance; SMEs.

Introduction

To ensure survival and long-term growth, a firm must be able to effectively deploy its internal resources to successfully compete in the market. Among these internal resources, entrepreneurial orientation (EO) is considered as one of the key resources that facilitates an organization to seek new ways for improving the revenue streams, increase the chances of success in international market and effectively utilize the organizational resources (Birkinshaw, 1997; Covin, Green, & Slevin, 2006; . The crucial role of entrepreneurial orientation has been widely acknowledged in many studies. EO helps an organization in attaining the superior organizational performance and sustainable competitive advantage. Many of the researchers highlighted that implementation of entrepreneurial orientation as an internal resource facilitate a firm to effectively identify first and then exploit the opportunities that come across and improve its business performance.

Numerous empirical researches in the field of strategic marketing and

entrepreneurship support the proposition that EO affects business performance (Alegre&Chiva, 2013; Hakala, 2013; .These studies have divergent findings vis-à-vis relationships. Some of these studies found a positive relationship between EO and performance (Eggers, Kraus, Hughes, Laraway, & Snycerski, 2013; Hussain, Ismail, & Shah, 2015; 2009), between the two and the debate is still ongoing.

However, despite the significant impact of EO on organizational performance, many researches argued that investigating the individual role of entrepreneurial orientation in affecting organizational performance may provide incomplete understanding (Altinay, Madanoglu, De Vita, Arasli, & Ekinici, 2015; Hakala, 2013; and the benefits derived from implementation of EO results in competitive advantage can be fleeting and may not be for long term (Altinay, et al., 2015; Ireland, Hitt, & Sirmon, 2003). Researchers suggest that proper alignment of both MO and EO enables an organization to be not only more market oriented but also develop novel marketable products . The implementation of EO in combination with MO simultaneously may produces a synergistic effect that facilitate an organization to aggressively pursue new market opportunities and improve performance (Amin, Thurasamy, Aldakhil, &Kaswuri, 2016; Baker & Sinkula, 2009).

However, there are other researchers (Atuahene-Gima&Ko, 2001; Baker &Sinkula, 2009; Boso, Cadogan, & Story, 2012; who contend that due attention has not been given to understanding the interplay between MO and EO. Almost all of these researches have explored the impact of these two orientations in direct relationship with organizational performance. Considering the importance of MO and EO for attaining superior firm performance and sustainable competitive advantage, Hussain, Rahman, &Wali (2016) called for further investigation on the interplay between MO and EO to further explore this relationship vis-à-vis their relationship with organization performance in developing countries, particularly in Pakistan. The current study is a research endeavor with the aim to responds to these calls by considering the effects of EO on firm innovative performance and possible moderating role of MO in the EO-performance causal linkage by utilizing a sample of 213 manufacturing SMEs operating in Pakistan.

Theoretical Background

Entrepreneurial Orientation (EO)

Prior studies in this discipline have highlighted that adoption and implementation of strong EO results in improved organizational performance and sustainable

competitive advantage . EO is an organizing marketing approach that a firm adopts and which enables it to identify and exploit the emerging business opportunities for the firm (Lumpkin &Dess, 1996). In this milieu, researcher (e.g. have identified three dimensions of EO; innovativeness, risk taking, and proactiveness. Risk-taking aspect of EO reflects the willingness of a firm to commit resources for implementing those projects that have chances of failure . Avoiding business related risk results in delay in introducing new products and exploiting new opportunities and, conversely reacting to changing market which further leads to weaker firm performance (Hughes & Morgan, 2007). Generally, large firms avoid taking risks and small firms enjoy more flexibility in risk taking and rapidly respond to the external environment, thus ensure their survival and excel their performance (Farsi, Rezazadeh, &Najmabadi, 2013; . Innovativeness by explanation is the inclination of a firm to embrace creative processes and activities through launching new products and developing new mechanism through research and development and technological leadership . An organization that concentrates effectively on the aspects of risk taking, innovativeness and pro activeness would be in a better position to effectively respond to external environment and take leverage from the market opportunities .

Looking at the relationship with more in-depth, Lumpkin and Dess (1996) believe that the relationship could be well understood if EO is studied as a five dimensions construct. The additional dimensions are autonomy and competitive aggressiveness. According to these scholars, competitive aggressiveness by explanation refers to the forward-looking attitude of a firm in seeking market opportunities and exploiting them before the competitors avail them. Autonomy in the organization refers to the authority and freedom which an individual or team enjoy while developing the business concepts and visions and follow till they accomplish them.

Market Orientation (MO)

MO as a major strategic element has received considerable attention as it improves the adaptability of organization in a dynamic market environment (Choi, 2012). Market-oriented organizations are those that are committed to understand the customer needs, share the customer related information throughout the organization and establish coordination among all the functional areas for creating superior value for the customers (Fang, Chang, Ou, & Chou, 2014; Jebarajakirthy, Thaichon, & Yoganathan, 2015). Prior studies have highlighted MO as implementation of the marketing concept (Amin, et al., 2016; and consider it as a corner stone of marketing

thought. There are two marketing approaches to conceptualize MO—behavioral and cultural—. From the behavioral perspective, Kohli and Jaworski define MO as “the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization-wide responsiveness to it” (p.6). According to this conceptualization, an organization collects market and competitors related information, share this information within the organization and respond to the external market changes. The second approach to the conceptualization of MO is the cultural perspective given by Narver and Slater (1990). They define MO as “the organization culture that most effectively creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (p.22). These scholars divide MO in three dimensions: a) competitor orientation; b) customer orientation; and c) inter-functional coordination. These dimensions collectively help organizations in explaining the current and potential needs of the customers. They also help in explaining the strategies of current and potential competitors and sharing this knowledge throughout the organization vis-à-vis the external market changes. This study undertakes the cultural perspective given by Narver and Slater (1990).

Resource Based View (RBV)

RBV which is a widely applicable theory in management, marketing and entrepreneurship literature that recognizes the critical nature of a firm's internal capabilities and resources and that their effective deployment results in superior productivity and sustainable competitive advantage (Jogaratnam, 2017; . Therefore, an organization that intends to yield greater performance and competitive advantage must ensure the effective and efficient utilization of these resources and have to make them rare and hard to substitute. (Barney, 1991; Eisenhardt & Martin, 2000). Voola and O'Cass believe that RBV demonstrates that internal factors of a firm (e.g. MO & EO) cause more variance in organizational performance than the variance explained by industry related factors and thus reflect an inside-out approach to strategy. Lonial and Karter (2015) point out that strategic orientation are the organizational capabilities and resources, and their effective deployment may result in improved firm performance and sustainable competitive advantage. Based on RBV, this study put forward that MO and EO are the two potential capabilities or resources of a firm and their simultaneous implementation yield superior organizational performance and competitive advantage.

Firm Performance

Firm performance being a multidimensional construct has empirically and theoretically been studied by a number of research studies (Hakala, 2013; , different aspects of firm performance includes: profit, technological improvement, cultural building, institutional contribution, organization development etc. It has further been explored that this construct is affected differently by different strategies that a firm resort to better performance. Generally, there are two approaches used for measuring the organizational performance: subjective and objective. Subjective measurement of performance is based on self-reporting, while the objective measure is primarily based on financial data. Ellis (2006) suggested using subjective measures of firm performance over objective measures and provided that subjective measures provide consistent and accurate measure of performance. Moreover, Jabeen and Mahmood (2014) contended that owner/managers of the firm are often unwilling and hesitant to provide the financial data relating to their business concern. Keeping in view these facts, this study uses non-financial indicators from Kirca et al. (2005) to measure the firm performance based on customer satisfaction, employee satisfaction, innovation and growth.

EO-Performance Relationship

Researchers have developed consensus that adoption of EO results in improved performance .Considering the importance of EO for achieving greater firm performance and sustainable competitive advantage, Altinay et al. (2015) conducted a study in 500 SMEs belonging to services and retail organizations of Northern Cyprus. They found a positive influence of EO on sales and market share growth. In similar vein, in their study on 197 small businesses in Philippines, reported that EO enables firms to develop a more proactive stance toward environmental sustainability practices that in turn results in greater firm performance. Another study conducted by Rauch et al. after performing a meta-analysis of the relationship between entrepreneurial orientation and business performance in 51 articles found a significant and positive relationship between EO and organizational performance. A study conducted by Wiklund and Shepherd (2005) in 808 Swedish companies by concentrating four main sectors namely labor-intensive manufacturing, knowledge-intensive manufacturing, retail and professional services indicated that EO (innovativeness, proactiveness, and risk taking) significantly and positively influences the small business performance. The findings of a recent study conducted by Eggers, et al. (2013) on 660 SMEs in Austria found that EO is positively related to the SME growth. However, some studies have highlighted that the effect of EO on organizational performance may vary depending

upon the type of performance measure used (Hakala, 2013; and difference in the context where the study is conducted. For example; Swierczek and Ha found only a partial positive relationship between entrepreneurial orientation and business performance. Kreiser, Marino, Kuratko, & Weaver highlighted that the relationship between EO and firm performance is non-linear.

Based on the mentioned extant literature, it is hypothesized that:

H1.EO in manufacturing SMEs is positively related to organizational performance.

Moderating Role of MO

Though the previous studies (Casillas, Moreno, &Barbero, 2011; have investigated the impact of MO and EO on organizational performance in separate studies, the researchers however, argued that in order to ensure superior performance and competitive advantage,a firm should not merely rely on the implementation of a single resource or capability but should develop a combination of resources (e.g. MO and EO) (Barney, 1991; Jogaratnam, 2017; . While other studies (Atuahene-Gima & Ko, 2001; Baker & Sinkula, 2009; Boso, et al., 2012; have explored the collective effects of MO and EO on firm performance, however, most of them have investigated the direct impact of both constructs in large organizations.

Notably, Among the prior studies on the subject constructs, very few studies have looked into the moderating role of EO on the relationship of MO and organizational performance in the context of China (Bhuiyan, Menguc, & Bell, 2005; . For example; Bhuiyan et al. (2005) investigated the moderating effect of EO on the MO-business performance link using a sample of 231 not-for-profit hospitals and found that EO positively and significantly moderate the relationship between MO and firm performance. Li et al. (2008) conducted a similar study using a sample of 213 small firms found that two dimensions of EO namely proactiveness and innovativeness positively moderate the relationship between MO and firm performance. None of the previous studies concentrating on MO and EO simultaneously have investigated the inverse relationship, that is; the moderating effect of MO on the relationship between EO and firm performance. Hence, there are still some gaps in the literature concerning the interplay between MO and EO that need to be further addressed. To address these research gaps; this study examines the moderating effect of MO on the relationship of EO and performance in the context of manufacturing SMEs in Pakistan. Based on the above discussion it is hypothesized that:

H2:Market orientation moderates the relationship between entrepreneurial orientation and organizational performance in manufacturing SMEs.

Research Method

Research Context

Pakistan's economy has many distinct features. One among them is that it is largely an SME driven economy. According to an estimate, its share in the whole economy is 93 percent of all the enterprises. Moreover, its share in employability of the non-agriculture labor force is touching 80 percent . The share of the prominent sector can easily be judged from the statistics that out of 3.2 million enterprises (approximately) in Pakistan, nearly 3 million are SMEs. Comparing its share, in the number game, with its share in the production, i.e., its contribution in the gross domestic product (GDP) in country is only 30 percent. This situation reflects its comparatively poor performance and somewhat insignificant. In other words, though SMEs represent major portion of the total business of the country, they hardly contribute their respective share into the national economy . There are numerous global challenges that put at stake the very survival of SMEs and their entry into the global market . Managers and researchers are striving their level best to provide smooth sailing to SMEs, however, researchers have noted that main focus here is on big corporations and SMEs have comparatively been ignored. During the year 2016, the total advances of banking issued to the SME sector are130,872 million rupees while issued to the corporate sector are775,400 million rupees, which is 569.56 percent higher than the SME sector and indicating a higher focus by the banking industry in the corporate sector than SMEs. That is why research in this sector is very vital .

SMEs in Pakistan are in developmental stage wherein inputs from researchers are always in demand like hot cakes. Such researches can suggest improvements in their operations. This can help in increasing the productivity of these SMEs, which consequently, can boost the national economy (Jasra, Khan, Hunjra, Rehman, &Azam, 2011; . The lack of education, training and entrepreneurial skills have significantly larger negative impacts on SMEs. Moreover, these SMEs havebeen found lacking in their managerial capabilities, weak and insufficient capital formation and financing, lagging behind in taking advantages from or lacking access to modern technology, inefficiency, and unwanted regulatory burden (Jaffari et al., 2011; . SMSs are key players in the economic growth of a country, and it is high time to realize the need to study their behavior. Developing deeper insights into their operations and in-depth research could lead them towards effective

and efficient utilization of their respective meager resources and make them more competitive in the local and international markets.

Sample Determination and Data Collection

This is a survey study and questionnaire as a data collection tool was distributed among 367 SMEs operating in Sialkot region, province of Punjab, Pakistan. These SMEs were randomly selected from the database of Sialkot Chamber of Commerce and Industry. A total of 239 surveys were returned out of 367, yielding 58 percent response rate. Out of 239 answered questionnaires, 213 were found complete and were used in the analysis. Majority of the participating firms were from electronics appliances (50%), followed by Garments and apparels (47%), leather goods (43%), earthen ware (26%) silver ware (17%) and surgical goods (12%). Besides, majority of firms were small with fewer than 100 employees (92%). As owners, managers are responsible to formulate the strategies of an organization and are well informed regarding their business operations, they were the most suitable candidates to respond to the items of the survey instrument. Majority of the SMEs, 77.3% response rate, were male dominating. Whereas, majority of the participants had bachelor degree (54.9%) followed by master's degrees (22.5%) and intermediate (18.8%), matriculation (33.3%) and less (0.5%).

Measures:

Market orientation: To measure MO, the widely used MKTOR measure of Narver and Slater was employed. The scale has 15 items in total and divided into three dimensions—customer orientation, competitor orientation and inter functional coordination.

Entrepreneurial orientation: To measure the EO construct, three dimensions of EO: innovativeness, risk taking, and competitive aggressiveness were adapted from Lee and Lim (2007). The Items for proactiveness dimension were adapted from Wang and Altinay and items for assessing the risk-taking dimension were adapted from Lumpkin and Dess (1996).

Performance: The scale for measuring organizational performance was adapted from the scale developed by Kirca et al. and further validated by Hussain et al. (2016). This scale assesses performance in terms of customer satisfaction, innovation, employees' satisfaction and growth.

Data Analysis

The study proposed that entrepreneurial orientation in manufacturing SMEs is positively related to organizational performance. SPSS has been used for data analysis. To check the relationships among the variables of interest, Pearson correlation analysis has been carried out. While, for checking the dependence relationships simple linear regression and hierarchical multiple regression analysis (HMRA) have been employed. It has also been hypothesized that market orientation moderates the relationship between entrepreneurial orientation and organizational performance in manufacturing SMEs. To analyze this aspect of the relationship, Baron and Kenny's (1986) three step moderation method has been employed.

Results

Descriptive Statistics and Correlation Analysis

The results of the analysis (MO: mean=3.917; and EO: mean=3.632) reveal that SMEs in Pakistan SMEs understand the role of EO and MO in uplifting of the organization. This reflects that they realize and recognize the advantages of following such strategies possess for ensuring smooth operations and greater organizational performance. To find out the intensity of the inter-correlation among variables of the study, Pearson correlation was employed. Results reveal that these variables are strongly and significantly inter-correlated. Table 1 provides the values for each relationship. The correlations between MO and firm performance ($r=0.875$, $p < 0.01$) and EO and organizational performance ($r=0.761$, $p < 0.01$) indicate strong relationship between the constructs.

Table No.1: Correlation Analysis of MO, EO and OP

No.	Variables	Mean	SD	1	2	3
1	Market Orientation	3.917	0.416	1		
2	Entrepreneurial Orientation	3.632	0.549	0.694**	1	
3	Organizational Performance	3.760	0.466	0.875**	0.761**	1

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

Direct Effect of MO on OP

To check the relationship between independent variable (entrepreneurial orientation) and dependent variable (organization performance), simple linear regression was used. Summary statistics in Table 2 reveals that the independent variable ($F=289.687$, $p < 0.05$) has significant and positive impact on the dependent variable ($\beta = 0.645$). For these values, it can be concluded that the empirical data support the first hypothesis (H1) of the current study.

Moderating Effect of MO

To check moderating effect of market orientation, Baron and Kenny's (1986) three-step moderation was employed. The subject steps have wide acceptability for checking moderation in almost all social science disciplines (Wong & Tong, 2012). Table 2 provides the results of the regression analysis. In detail analysis the results of the step 1 (table 2) indicate a significant effect of independent variable on the dependent variable ($\beta = 0.645$, $F=289.687$, p

< 0.05). In step 2, results (Table 2) here, again indicate the inclusion of MO as moderator. These results show that when MO is added, it results in a significant increase of 23.2 per cent in R-square (change of F-value= 258.360, $p < 0.001$).

To check the intensity and explanation power of the moderation, step 3 is resorted to. In this step interaction term is inserted. The results (Table 2) demonstrate the when interaction term (EO*MO) is added, then the explanation power of the model significantly increased to 81.5 per cent ($R^2=0.815$; $p < 0.001$). The results further explain that the interaction term results in contributing small but significant increase in explaining the variance in OP (change in F-value = 133.588, $p < 0.001$). Results of the moderation analysis indicate that high level of MO results in strengthening the relationship between EO and OP. whereas, the link between EO and OP is weak with low level of MO. Thus, hypothesis H2 is supported.

Table No. 2: Summary Statistics of Moderating Effects

Step		Standardized Beta	R	R ²	F Change	Sig. F Change
1	Entrepreneurial Orientation (EO)	0.645	0.761	0.579	289.687	0.000
	Entrepreneurial Orientation (EO)	0.251	0.901	0.811	258.360	0.000
2	Market Orientation (MO)	0.750				
	Entrepreneurial Orientation (EO)	-0.152	0.903	0.815	133.588	0.000
3	Market Orientation (MO)	0.348				
	The Interaction Term (EO*MO)	0.108				

Note: Dependent variable: Organizational Performance

Discussion of Results

This study develops a conceptual model to explore the moderating role of marketing orientation in the relationship between EO and organizational performance. Empirical results of the study have revealed that EO positively affects organizational performance. The results of the current study support the previous studies

(Alegre&Chiva, 2013; Covin, et al., 2006; Hakala, 2013; G Tom Lumpkin & Dess, 1996; Shirokova, Bogatyreva, Beliaeva, Puffer, & Matlay, 2016; Wiklund & Shepherd, 2005; Zhao, et al., 2011).

However, if we add MO as a moderator, the direct influence and positive impact of EO on firm performance will increase, though this effect is not intense but significant.

The moderating results support a more recent study conducted by Akhtar et al. (2015) demonstrating that SMEs in developing countries take minimum possible risk that further results in less innovation and least forward-looking behavior. The findings of the study show that EO indirectly influences organizations' performance by affecting the firm's MO. Thus, MO plays a moderating role and leads an entrepreneurial oriented firm to not only take benefits of the prevailing market opportunities but also best serve the current needs of the customers. The results of the study are in line with the previous studies arguing that implementing a single strategy would not guarantee improved performance but simultaneous deployment and implementation of multiple strategic orientation give rise to greater firm performance and sustainable competitive advantage (Grinstein, 2008; Hakala, 2013; Lonial & Carter, 2015; Vega-Vázquez, et al., 2016), and thus confirms the findings of a recently conducted study by Amin et al. (2016) which reported that deploying both EO and MO simultaneously will enable a firm to best serve the needs and wants of the customers and outperform those who do not implement these strategies simultaneously.

Implications

One of the major practical implications of this study is that the adoption and implementation of EO strategy affects the organizational performance of SMEs operating in manufacturing sector in a developing country like Pakistan. Second, firms that develop their strategic framework based on multiple orientations like MO and EO will be in a better position in securing their long-term objectives and will easily survive in the competitive market. EO is an approach that enables organizations to provide quality service to all the stakeholders compared to the competitors. This can be achieved through improving the quality of MO which consequently culminates on improved organization performance (Vega-Vázquez, et al., 2016). Industrial development has critical role in the overall economic development of a country. In the development process, the role of SMEs will be prominent if the share of SMEs is large, and this is what the position of SMEs in Pakistan is. Since Pakistan's economy heavily relies on manufacturing SMEs, the country needs to adopt a culture that is conducive for the development of SMEs. However, it has to be noted that each country has its own unique culture and the culture of entrepreneurship is a sub-culture of the national culture. In Pakistan, most of the SMEs are either owned or controlled by families. These families are hesitant to take risks which are part and parcels of SMEs. Therefore, researchers (Akhtar, et al., 2015) highlight that in such circumstances innovation and proactiveness become secondary. However, prior studies

have emphasized that EO enables small firms to better respond to the challenges posed by external environment by turning the threats into opportunities in developing countries (Kuivalainen, Sundqvist, & Servais, 2007; Roxas, Ashill, & Chadee, 2016). In the same vein, the current study suggests that manufacturing SMEs operating in Pakistan should adopt EO strategy in conjunction with MO simultaneously, as this effective configuration would help them to ensure their long-term survival and attain sustainable competitive advantage at both national and international markets.

Limitations and Future Research Directions

Like other social science research, this study has also some limitations. First limitation is that of the data. The data for this research is cross sectional in nature. The results of such data do not have deep foundations. Therefore, we would like to recommend that researchers may take longitudinal data in order to better understand the relationship between these strategic orientations and organizational performance. Second, this study used subjective performance measure. In other words, it is study based on respondents' perception and human perception is liable to error. Therefore, future researchers may study these relationships while taking into consideration objective performance measures such as returns on assets, stock returns, returns on investment and profitability and return on investment. Third, as this study is conducted in a developing country context i.e. Pakistan, so it is advised that a future study should treat the findings of this study with caution in other developing countries while generalizing the results of the study. Fourth, data for the current study was collected from one city of Punjab province, future studies need to consider other industrial hubs of the country located in other provinces in order to overcome this limitation. Fifth, one possible future research gap may be the translation (translation from English into Urdu being the national language of Pakistan) and cross validation of the scales in Pakistani culture. Finally, this study investigated the interplay between MO and EO with organizational performance. Future studies might include other strategic orientation like learning orientation, relationship orientation and technology orientation and their effects on performance of SMEs are recommended to be examined for developing effective configuration of organizational strategies.

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