

# Entrepreneurial Orientation and Business Performance: An Empirical Investigation on Small and Medium Enterprises of Western Province in Sri Lanka

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**ABSTRACT:** This study makes an effort to scrutinize the effect of Entrepreneurship Orientation on the Performance of Small and Medium Enterprises in Sri Lanka. The main objective of this article is to investigate the developing trend that has created much interest in contemporary society. The particular aim of this research is to explore this effect under diverse approaches, theories, and models, namely Multidimensional Approaches; Entrepreneurship Theories such as Contingency Theory and Theory of Planned Behaviour; and the model of Lumpkin and Dess in the literature. Data collection was conducted with 382 Small and Medium Enterprises in Sri Lanka using a structured survey questionnaire. Structural Equation modeling techniques with the Statistical Package of Social Sciences were used for testing the research hypotheses. The impact of Entrepreneurship Orientation on Performance of Small and Medium Enterprises, as formulated by the conceptual framework of this study, was examined and tested by computing the validity and reliability of the instrument, using the factor analysis as well as Cronbach's Alpha to prove the eligibility. Furthermore, finalizing the results was done using the means of descriptive statistics and the structural equation modeling techniques. The results exposed that Entrepreneurship Orientation has a statistically significant and positive impact on the performance of Small and Medium Enterprises within the context of Sri Lanka.

**KEYWORDS:** Entrepreneur, Entrepreneurship, Performance of business, Structure, Success

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## I. INTRODUCTION

Although numerous empirical work on Entrepreneurial Orientation (EO) was done in the recent past, there is an enormous research gap that needs to be examined. At the same time, it is noteworthy that EO has drawn major attraction, showing much interest than before, for investigation and development of entrepreneurship [1]. EO is recognized to be an essential skill needed to be an entrepreneur [2] and work towards the progress of SMEs [3]. It is necessary to be alert on the cost-effective behavior of employees of an organization that exhibits creativeness, innovative capacity, perform tasks appropriately, and problem-solving skills as a priority for the achievement of EO needs [4]. This research article has the primary concern of analyzing the effect of EO dimensions on the business actions with regard to the SME performance in Sri Lanka. At present, a scarcity of individual research on EO is observed. It is a critical and timely need to evaluate the performance of SMEs in the smart commercial domain. Although the shortage of studies carried out on EO is individual [7] it is an issue of consideration, and investigations of individual EOs are nevertheless inadequate [8], [9], [10]. Consequently, the questions arise: How does the EO of small firms affect their performance, and to what extent? Does this have an impact on the performance of SMEs in Sri Lanka?

## II. MATERIALS AND METHODS

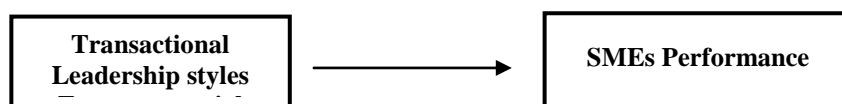
This investigation emphasizes innovation, risk-taking, proactiveness, autonomy and competitive aggressiveness, which are the pragmatic factors of EO dimensions [14], and serve as the dominant section of the model that endeavors to elucidate in this study. As the literature suggests, research and development on entrepreneurship and its awareness are being recognized as vital to solving the critical situation faced by many countries towards sustainable development [11], [12] by adhering to these factors in different ways. As the literature review enlightens, EO measures the level of entrepreneurship in establishments [15] typically, and therefore, EO is of utmost prominence to any firm regardless of many variations due to its strong effect on cost-effectiveness and progress [16]. Early intellectuals identified EO as the inclination of the decision-makers towards taking calculated risks and presenting innovation as competitive advantages. Numerous studies exhibit the utmost significance of the aspects such as innovative capability, proactively, risk-taking, and competitive aggressiveness, which are essential components of EO [14]. Innovation is regarded as the foremost drive responsible for the financial progress and enlargement of businesses [17]. SMEs, unlike large scale businesses, have a tendency to embark on innovative behaviors [18] to generate fresh commercial opportunities as well as involve in new business concepts to create new corporate procedures and arrangements to formulate fresh

business resolutions [10]. Risk-taking is referred to as the tendency to undertake brave actions such as moving into unfamiliar new markets, allocating vast amounts of resources to industries with insecurity, and the affinity to take heavy borrowings [14]. Literature reveals that studies on entrepreneurship have interpretations such as entrepreneurs have the tendency to take risks in comparison to other people, although the results are not confirmed.

Furthermore, it also indicates that unlike large scale businesses, SMEs seem very passionate about having a hand in risky investments [18]. Proactiveness can be interpreted as the manner of taking action supposing benefits and to be prepared for situations that can arise without waiting to take action after an incident. Hence, passiveness in contrast to proactiveness, describes the unresponsiveness demonstrated by the absence of the skill to grab the prospects or in other words failure to be a leader in the market but not reactivity. Re-activeness is recognized as the tendency to fine-tune through responding to the actions of a competitor while proactiveness means instigating required alterations to the environment [17]. Autonomy refers to the ability and the willpower to be independent in grasping openings, and it is usually affected by the business size, style of management or proprietorship. The members of any institute should have the liberty to work without limitations of resources, strict managerial rules, and activities by competitors [14] in order to practice autonomy in an establishment. Competitive aggressiveness is identified as the power of the actions taken by the institute to achieve advanced statures than the industry competitors, which is demonstrated by a challenging standpoint using vibrant response to rivals activities [14]. Therefore, the tendency of the establishment to be antagonistic in view of the rivals and challenging them is demonstrated by this characteristic. Among the approaches used in challenging harshly can include procedures such as neglecting profits for dynamic selling at reduced prices, improving quality, having efficient product development activity, managing producing volume, modernizations, and diversities of businesses [18]. The dependent variable of the study shown in this article was the performance of SMEs and efficiency, effectiveness, and economic efficiency [21], [22], [23] were the denominators used for this variable as most commonly found in the literature. The fact that there are various methods for measuring business performance of SMEs is acknowledged.

**Relationship of Entrepreneurial Orientation and SMEs Performance :** The vision of an institute reflected by EO while it has competitive advantage and leads to enhanced performance [24] There is much evidence that in the developed countries there is a positive significant association between EO and SME performance. A study carried out in relation to small firms in Iceland, showed that EO has a positive effect on performance [24]. The link between EO and SMEs performance as well as the impact of EO on SMEs performance are the fundamental issues in this study.

**Conceptual Framework :** The conceptual framework is shown in Figure 1 below.



*Figure 1: Proposed Conceptual Framework*

Previous literature illustrates that these five dimensions [3], [22], [24] of EO and two dimensions [3], [14] of Performance of SMEs, while these variables had never been tested using this sample previously in a single model to examine the impact of EO on SMEs performance in Sri Lanka.

**Hypotheses:** Based on the effects portrayed in the conceptual framework, the hypotheses for this study are formulated. The basis for the conceptual framework was the relevant literature and the potential impacts of EO on SMEs Performance were constructed and this link is formulated as below.

*H<sub>1</sub>: Entrepreneurial Orientation has an impact on SMEs Performance in Sri Lanka*

**Types of data and statistical techniques for analysis:** The data collection was performed using systematic instruments and techniques, while analysis was done through the most appropriate analytical methods. When planning the process of collecting the required information due concern was given to exact data, the method of data collection and the data collection procedure. Further, testing reliability and validity measurements of a

report done through the Pre-test, Pilot-test, and Actual test and these steps were followed properly. The variety of test results were evaluated with the assistance of multiple statistical systems in conducting the analysis. Financial and non-financial measurements were used to evaluate the SMEs Performance, which is the dependent variable. Profits, growth, and owner satisfaction were features that measured the dimension of SMEs Performance using 11 items. Since the mean values of the variables are less than the level of the above variable values, AMOS in SEM was used to measure construct validity and reliability. The validity test is carried out to entitle the amount of original variables into a smaller set of factors having a minimum loss of information. Validity of the test is reflected by EFA. Kaiser-Meyer-Olkin (KMO) for SMEs Performance is 0.830 and EO is 0.918 with significance level of 0.001. Bartlett's test of Sphericity are two kind of tests done through SPSS.

Calculations were also done for Average Variance Extracted (AVE) and Composite Reliability (CR). The values for Cronbach's Alpha, AVE and CR were higher than the threshold values of 0.70, 0.50, and 0.70, respectively [17,18,19], which confirms the reliability and validity of the instrument. The output of the study for each dimension of EO demonstrates the calculated Cronbach's Alpha, AVE, CR values, and P-value as adequate levels for EO and SMEs Performance. Since, all the measured values are higher than the threshold level which signifies the reliability and validity of the constructs. Convergent validity illustrates that AVE values are greater than 0.5 for all dimensions which fulfill the threshold criteria. All Alpha values of the reliability were above 0.7 and p values illustrated indicator validity and significance at a satisfactory level.

### III. RELATIONSHIP OF ENTREPRENEURIAL ORIENTATION ON SMES PERFORMANCE

The selected dimensions of EO for this study comprise innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness. The hypothesized relationships in relation to these dimensions of EO and SMEs Performance are indicated below. The standardized values relating to the impact on SMEs Performance is shown by the path coefficient. A statistically significant strong positive impact is exhibited by these values. A basis for testing statistical significance of SEM constructs is provided by the C.R. (Critical Ratio) values beyond  $\pm 2.58$  significant at  $p < 0.05$  levels. The impact of EO on SMEs Performance is shown by the Estimate values, C.R. values and P-values as shown in Table 3.

**Table 1: Impact of Entrepreneurial Orientation on SMEs Performance**

		<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
<b>SMEs Performance.</b>	<--- EO	0.252	.063	4.031	<b>&lt;0.05</b> ***

The relationship between EO and SMEs Performance is significant, with C.R. value of 4.031 and P-value  $< 0.05$  as per the above table. A positive impact of EO on SMEs Performance is observed in the Sri Lanka. Therefore, it is clear that EO indicates a statistically significant relationship. Moreover, the P-value of EO is significant as shown by the symbol of \*\*\* while as the next step, testing of the hypotheses based on the dimensions of EO are debated.

**Hypotheses Testing:** There are five dimensions indicate with EO namely innovativeness, risk-taking, proactiveness, autonomy and competitive aggressiveness. Altogether, these five dimensions were highlighted the hypotheses as follows.

**H1:** Innovativeness has an impact on SMEs Performance

A statistically significant positive relationship is shown by Innovation on Performance of SMEs as the path coefficient of 0.141 denotes. The C.R. value of 3.618 and P-value  $< 0.05$  also suggests the impact of Innovation has a significant link with the performance of SMEs. Therefore, the impact between these two variables can be affirmed while earlier research [9], [10], [14], [24] is in agreement with this outcome. Many research studies [3], [25] indicate a direct impact between the association of innovativeness and SMEs Performance and therefore, hypothesis one is supported. Hence, Innovation has an impact on Performance of SMEs

**H2:** Risk-taking has an impact on SMEs Performance

Hypotheses two indicates that there is an impact of Risk-taking on SMEs Performance. A positive and statistically significant association is shown between the two variables by the path coefficient of 0.017. Therefore, an impact is shown by Risk-taking on Performance of SMEs. Further it is clear that the impact of Risk-taking on Performance of SME is significant, having a C.R. value of 0.548 and P-value  $< 0.05$ , Hence,

hypothesis 2 can be stated as supported, and this result is in accordance with the results of previous studies [14, 24]. Hence, there is a relationship between Risk-taking and the Performance of SMEs.

**H3:** Proactiveness has an impact on SMEs Performance

Hypothesis three illustrates the effect of Proactiveness on SMEs Performance. Proactiveness indicates a significant relationship with SMEs Performance, exhibiting a C.R. value of -0.919 and P-value < 0.05. This endorses hypothesis 5. Research done earlier [10], [24] is in harmony with this result. Further much research suggests a direct relationship by proactiveness on SMEs Performance [16].

**H4:** Autonomy has an impact on SMEs Performance

This stipulates that autonomy shows a significant link with SMEs Performance with C.R. value of 0.318 and P-value < 0.05. Hence hypothesis four is confirmed.

Previous research findings [10], [20] too are in equivalent to this finding. Further, a direct link between proactiveness and SMEs Performance [46] is observed in much research.

**H5:** Competitive Aggressiveness has an impact on SMEs Performance

This fifth hypothesis indicates that SME Performance has been affected by Competitive Aggressiveness. A significant relationship can be observed between Competitive Aggressiveness and Performance of SMEs, demonstrating a C.R. value of 2.326 and P-value < 0.05. Hence hypothesis five can be acknowledged. Previous research [10], [16] too is in accordance with this results. Furthermore, it also proves that Competitive aggressiveness exhibits a direct relationship on SMEs Performance [16] as shown in many research

#### **IV. DISCUSSION**

It is evident from literature that a large amount of research has been published on the concept of EO [25] The primary focus of this study is to investigate the effect of EO on performance of SMEs in the Western province of Sri Lanka. The findings of this study reflect management consequences and advocate important recommendations in view of highlighting Performance of SMEs. The impact caused by the five selected dimensions of EO on Performance of SMEs is examined in this study. The findings, depicted positive values for all SMEs on Performance (M=3.80) and EO (M=3.58). Therefore, in the Western Province of Sri Lanka the level of performance of SMEs with regard to EO, indicates above average mean values endorsing a positive impact of EO on performance of SMEs. It was revealed by the quantitative analysis results that SMEs operating in the location mentioned above exhibit some entrepreneurial style when handling the businesses effectively. It is clear that SMEs have high recognition for innovativeness and they are inclined to improved performance in comparison to the other persons who operate without innovation. Several other research studies too have admitted this fact as indicated in the literature [7], [14], [22] and [23]. The current environment, which has a stable, quick adjustments while applying new ideas and distinctiveness which signifies vital assurance of competitive advantage are few reasons to be attracted to innovation by entrepreneurs. Similarly, the SMEs exhibit proactiveness in view of alterations leading to increased productivity, which enhances their efficiency and effectiveness. The proactiveness dimension of EO demands the kind of advanced actions in expectation of current impending requirements or profitable markets to get advantages than rivals, which is exposed by many research studies [2], [7], [12] and [13]. Autonomy of SMEs reveal an advanced level of relationship among shareholders in view of enhanced Performance of SMEs. Autonomy is also described as the capability to establish, sustain, and implement activities independently; acquaintances and relations joined to specify the importance of the concept in relation to the businesses; while several experimental research [2], [24], [25] make use of this as a measure of EO element. Therefore, Autonomy is an essential aspect required to examine the effect of EO on entrepreneurs.

Competitive Aggressiveness too was used to examine the SMEs performance in this study. Many studies on several disciplines have used Competitive Aggressiveness as a dimension of EO which depicted different results [7], [15], [16], [17], [18], [19], [20], and [22]. EO leads to a higher level that can be considered as an opportunity for the endowed owner-managers who would prefer to be successful and generate a market by operating new ideas in business [22]. However some researchers after conducting studies, revealed that all dimensions of EO did not show a positive association with Performance of SMEs [2]. A study carried out in South Africa on young-adult owned small businesses [25] a significant positive relationship between Proactiveness and performance was not shown. Further, a significant positive association between Proactiveness

and performance of young-adult owned small businesses was not shown in one of the studies done in South Africa [22].

## V. CONCLUSION

It is clear that SMEs world over demonstrate inadequate levels of creativity and innovative practices; lethargy as regards to ultramodern planning; basic bottom level of risk taking; disparity of autonomy and carelessness of competitive aggressiveness; which remain to be unreciprocated. It is vital to assess the results of EO on SMEs with regard to the dimensions of innovativeness, proactiveness, risk-taking, autonomy and competitive aggressiveness in comparison to other related components. Henceforth, it is clear that the significance of entrepreneurs of the nation as change agents of a country and further, it becomes the concern of the policy makers in the respective government sector and non-government organizations as well as the academia of the education sector, to concentrate on sustainable development with the important EO mindset for self confidence, self esteem, internal locus of control, creativity and financially viable development of entrepreneurs.

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