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THE IMPACT OF ENTREPRENEURIAL ORIENTATION AND SOCIAL CAPITAL ON BUSINESS PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES OF SINDH

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Abstract

In today's competitive market, performance of small and medium enterprises has significant value towards the economy. The impact of Entrepreneurial orientation and Social Capital on business performance has been observed and has been acknowledged in the developed economies.. The relationship of Entrepreneurial Orientation, Social Capital and SMEs Performance in Pakistan is investigated to contribute towards entrepreneurial studies and entrepreneurship literature. In order to attain the objectives of the study, quantitative research method has been used to gauge relationship of both Entrepreneurial Orientation and Social Capital on Business Performance of Small and Medium Enterprises of Sindh. The target population is owners and managers of SMEs working in Sindh Province and primary data has been collected from them through questionnaire. The sampling has been made through method of non-probability judgmental sampling. For extracting results from data, Smart PLS research analysis software has been employed to generate results and analyze them. Path Analysis has been made to evaluate hypotheses. The research suggests 58.8% variance in business performance is due to entrepreneurial orientation and social capital constructs altogether. The research concludes positive relationship of both variables with business performance. The study recommends that adopting all components of Entrepreneurial orientation would results in resource inadequacies because all dimensions are not equally significant and valuable for firms. It is important that Entrepreneurs build social capital network and maintain relationships with trade partners, volunteer associations and with institutional stakeholders to generate value for firms and to enhance business performance.

1.0 INTRODUCTION

Small and medium-sized enterprises (SMEs) are considered as drivers of economic development, employment creation and innovation across emerging markets (World Bank, 2022). The bulk of industrial units and economic populace of any country are owned by SMEs and these enterprises are biggest contributor towards employment and economic development. Almost ninety percent of businesses around the globe are owned by these enterprises and more than fifty percent of employees are employed by small and medium enterprises. Besides employment, these firms provide vital goods and services in the economy (Gray, 2006) and play vital role in progress of a nation by maintaining the standard of life and increasing the income of the people (Dar,

Ahmed, & Raziq, 2017). SMEs are high priority area for developing economies around the globe.

Entrepreneurial orientation has been gaining significance and empirical attention by researchers and scholars of management and social sciences (Shan, Song, & Ju, 2016). According to Saeed, Yousafzai, and Engelen (2014), identification and evaluation of relationship between EO and performance is one of the most researched area in field of entrepreneurship. Social capital has a vital role towards entrepreneurship and has become key area of research in management and social science (Coleman, 1988).

2.0 Literature Review

2.1 Entrepreneurial Orientation

It is broadly defined as a process, practices and way of making decisions in the firm that facilitates to improving business profitability (G Tom Lumpkin & Dess, 1996). EO model is based on five constructs. These are taking of risk, bringing innovation, to be proactive, providing autonomy to employees and being competitive aggressive to attain firms' goals (G Tom Lumpkin & Dess, 1996)

The business environment is volatile owing to progress in technology and changing demand of the customers. The dimension of EO may contribute towards achieving better productivity (Rauch, Wiklund, Lumpkin, & Frese, 2009)

These challenges create impediments for growth of any firm and this requires firm to adopt entrepreneurial orientation in order to overcome impediments and move towards growth. Firms with adaptation of entrepreneurial skills tend to outperform over the firms who lack capabilities of being entrepreneurial (Covin & Slevin, 1991)

2.1.1 Innovativeness

Innovativeness involves adopting creativity, it is organizational propensity to adopt innovation. The process of innovation enables businesses to bring new products and service; Innovation also benefits towards redefining and revitalizing business (G Tom Lumpkin & Dess, 1996). He further added that innovation is not just bringing novel products or services but it also includes improvising existing products and services by means of technology and advanced production processes. The innovation also entails identifying new territories and capitalizing export market for new product and services. Incorporating new organizational structure is also form of innovation according to Schumpeter. On basis of this, it is considered as a method to pursue and providing support for novel ideas, processes and development. He emphasized on process of developing novelty and innovation by means of experiments (G Tom Lumpkin & Dess, 1996). Three main categories of innovation as per Johne and Davies (2000) are product, process and market innovation. First type is concerned with introduction of novel products as per changing demands of the customers in the market. Process innovation deals with internal abilities, it focuses on development of processes and internal capabilities due to technological advances. Market innovation is identification of new markets and target segments to increase sales of firms.

Innovation may be considered as a tool of performance and development for the organizations and it is quite significant for both types of organizations, large as well as small firms in the industry. For Developing economies like Pakistan, it is widely recommended that SMEs embrace concepts of innovation in this competitive and dynamic environment. Pakistani firms are facing issues of financing and access to capital, moreover governmental policies for SMEs are also unfavorable. In such scenario, attaining competitive gains by means of innovation may contribute towards performance of firms (Hafeez, Shariff, & bin Mad Lazim, 2012).

2.1.2 Proactiveness

It is another variable of EO which is based on concept of going ahead of competitors and capitalizing market opportunities in the business environment. Proactiveness is taking initiative, foresee opportunities and engaging in evolving markets(Entrialgo, Fernández, & Vázquez, 2000). In framework of entrepreneurial orientation, it is theorized as progressive behavior and quest for

opportunity which is followed by innovation (Ardichvili, Cardozo, & Ray, 2003).

It is also assumed to be related with taking the first step ahead of competitor (Gupta & Batra, 2016). The firms engaging themselves in proactiveness have a futuristic approach, these firms anticipate changes and act accordingly (Dada & Fogg, 2016). The Studies suggest that level of proactiveness in firms is directly linked with collection of information related to opportunities and resources of business sector. This reflects that firms with proactiveness in style tend to recognize environment and market prospects effectively by screening useful information related to business.

2.1.3 Risk taking

It represents uncertainty that occurs due to actions of entrepreneur and firm (Low & MacMillan, 1988; G Tom Lumpkin & Dess, 1996) and encompasses undergoing different marketplaces by devoting resources with indeterminate results (Rauch et al., 2009). It is the uncertainty that results from performing entrepreneurially. By risk taking it means devoting resources of the firm in the projects whose outcome is not certain or project which is more prone towards failure. It involves analysis of risk and uncertainties, involved in the project/business (Schindehutte, Morris, & Kocak, 2008).

The risk taking notion is related with Entrepreneurship since long time when concept of entrepreneurship was originally coined and described by Cantillon (Couppey & Roux, 2007). In today's concept of entrepreneurship, it has wide significance as vital dimension of entrepreneurial orientation. Researchers and different authors of entrepreneurship studies have explained risk taking at the firm level.

Firms following entrepreneurial orientation tend to incline their activities towards high risk projects to achieve higher returns whereas firms with low appetite of risk tend to avoid undertaking projects with uncertainty thus restricting itself to lower returns and stability (Avlonitis & Salavou, 2007).

2.1.4 Competitive aggressiveness

It is an enterprise's tendency to compete and encounter their opponents in the market for attaining competitive position and to beat the competitors of the industry. It refers to enterprise's' counter towards competitor's challenges (G Tom Lumpkin & Dess, 1996).

A behavior of competitive aggressiveness can be executed through two approaches of behavior, responsiveness and reactiveness. Responsive behavior involves direct competition with competitor and launching strategies which enhances competition whereas reactiveness approach is based reacting to strategies of competitor, instead of launching strategy to exhibit aggressive behavior this approach is based on responding to competitor actions (G Tom Lumpkin & Dess, 1996).

Competitive aggressiveness is linked with capability to outperform rivals or business competitors with a robust aggressive attitude and competitively capturing markets held by competitors (Griffith, Noble, & Chen, 2006).

2.1.5 Autonomy

It is described as a freedom to personnel in the organization to motivate them to be self-directed, allowing them to follow novelty and business prospects. It specifies the tendency toward providing favorable circumstances for growth and ensuing execution of innovative ideas.

Wales, Monsen, and McKelvie (2011) identified positive link between autonomy and firm performance. Similarly, De Jong and Den Hartog (2007) reiterated that by providing autonomy to managers innovation may be enhanced in organizations. In continuation to this, Eder (2007) found that creativity and innovation in firm are linked with autonomy and employee attributes. Shimizu (2012) observed that in promotion of entrepreneurship, autonomy plays a vital role but at the same time it may provide opportunity to employees to deviate from major functions of organization. In this course of line, there are also few studies which proposed that it is not necessary that autonomy also contributes towards better performance of firms (Covin, Green, & Slevin, 2006). Adoption of higher level

of autonomy sometimes results in declining innovation within the organization.

Social Capital

It may be described as resources accessible to individual and group by participating in some form of networks and may be conceptualized at the individual and collective levels (Moore & Kawachi, 2017). It may also be defined as social connections which are utilized to attain essential business assets and to enhance business performance by entrepreneurs(Dai, Mao, Zhao, & Mattila, 2015).

It is also defined as 'networks of relationships and assets located in these networks. It is set of resources rooted in networks which are valuable for business performance and productivity (Hernández et., (2017). The concept of Social capital refers to networks of relationships and assets placed in these networks (Batjargal, 2003). The concept of social capital is based on resources generated through means of associations. Adler and Kwon (2002) described it as a concept based on assets embedded in relationships or network of relationships. The resources generated through relationships helps in growth and in bringing value for firms. It is set of resources rooted in networks which are valuable for business performance and productivity. These networks become resources and make them 'capital' in the sense that they may ultimately lead to future benefits in business. The social capital may be exploited for business purposes and for attaining business goals.

According to Pratono, Al-Mashari, and Del Giudice (2016), Social Capital has roots from social network theory that is taken as a valued resource to Financial Performance. The idea of Social capital also denotes network of relationships and assets in it. The relationships in different spheres of people and generation of resources through relationships are classified as social capital. This capital is dissimilar to financial and human capital in the sense that it originates and based on collaboration amongst different social actors.

The relationships based on personal and business networks provides resources. These includes prospects in business, support in gathering information, access to finance, new business designs, psychological support and opportunity to create business reputation. ((Baker & Oswald, 2010). Social capital provides opportunities to entrepreneurs in gaining access to information on prospective business opportunities and assist owners of small firms in achieving venture capital for their businesses(Alexy, Block, Sandner, & Ter Wal, 2012). Many entrepreneurs and owners of small firms are utilizing channels of their close relationships and professional relationships to seek access to finance and other resources of business. Even social capital facilitates small business in achieving goals of marketing and advertising through word of mouth and direct marketing and these channels of marketing are more effective than paid advertisement. Social network and business startup centers are vital for promotion of entrepreneurship (Neira, Portela, Cancelo, & Calvo, 2013).

Like other forms of capital, it attempts to enhance the effectiveness and growth of firms by enabling collaboration between members (Hou, Lin, & Zhang, 2017). The resources generated through relationships helps in growth and in bringing value for firms. It provides prospects for bridging and bonding social capital in getting information (Tian, 2016) and it may be exploited for business purposes and for attaining business goals.

Sułkowski (2017) described it as trust, connections, and social networks which help in getting cooperation. According to the network approach, relationships provide resources and these resources help individuals in attaining social and organization goals. The initial aspect of social capital contributes towards society and the current aspect provides value to individuals in attaining their goals.

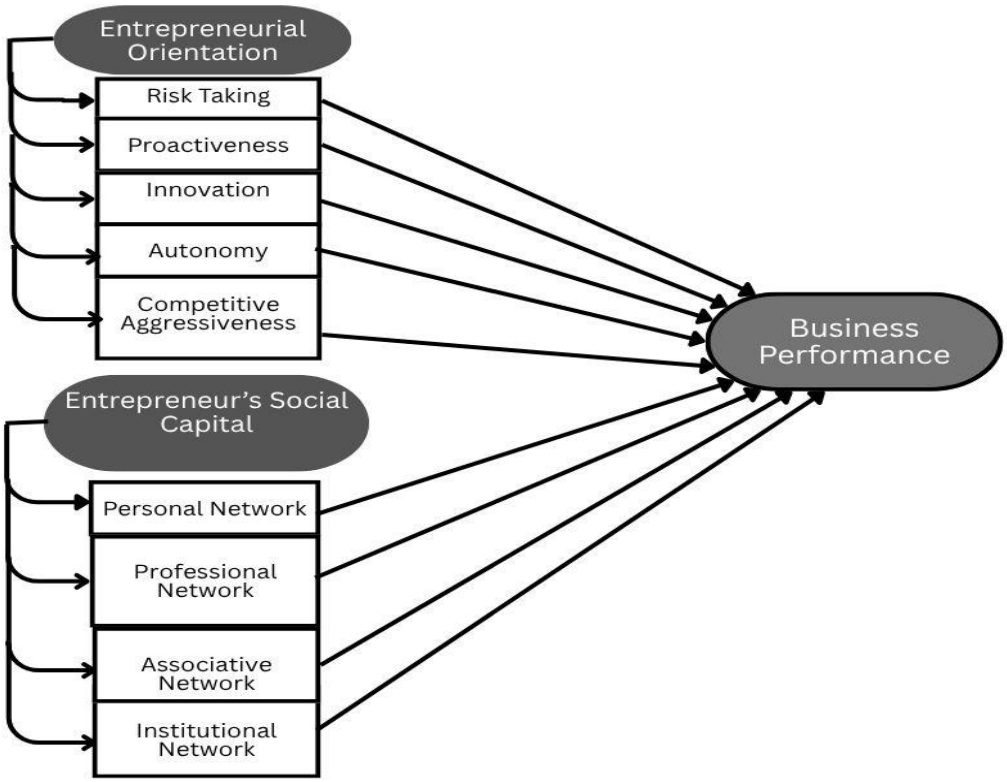
2.6 Business Performance

It has developed as a significant notion in strategic management studies and is often used as dependent variable. The performance is firm is broadly referred to as its success level (Chelliah, Sulaiman, & Yusoff, 2010). It is a multidimensional in nature and there are

different aspects of measuring performance of any firm (Morgan & Strong, 2003). The concept of business performance and its measurement are identified in different research studies. Broadly researchers have divided performance parameters into two qualitative and quantitative variables. Qualitative includes innovative level, employee satisfaction and management satisfaction with firm output whereas quantitative variables include profitability indicators in terms of sales, income and growth of firm in numbers (Hill & Jones, 2011)

The subjective approach for determining firm performance has been extensively used Glaister et., (2008). Entrepreneurs and management of small firms assess performance by employing both financial and non-financial constructs. The nonfinancial include market share, customers' satisfaction and employees' turnover whereas later measures include profitability and sales turnover (Chong, 2008). Morgan and Strong (2003) also emphasized on market share, sales growth, customer satisfaction, return on investment and customer retention as appropriate performance measurement factors.

Research Model



3.4 Research Design

The research has adopted quantitative approach to collect the data from the entrepreneurs. Since the study is explanatory to describe association among variables and quantitative research approach is significant and widely used in explanatory studies. The approach has been used to answer research questions.

Besides this, descriptive and analytical approaches have been applied owing to hypothesis testing regarding variables.

3.4.1 Target Population and Sample

It includes the entrepreneurs and Managers of Firms. Around 3.0 million registered SMEs are operating in Pakistan out of which only 18% are located in Province of Sindh (Zafar & Mustafa, 2017). The sample for study consists of 395 entrepreneurs and managers working in SMEs of Sindh. Respondents are from all divisions of Sindh Province. The sampling technique for collection of data is based on nonprobability judgmental sampling. In this, respondents were identified on basis of geography and on basis of convenience.

3.4.4 Research Tool

The primary data has been collected through questionnaire from entrepreneurs and managers of the firm.

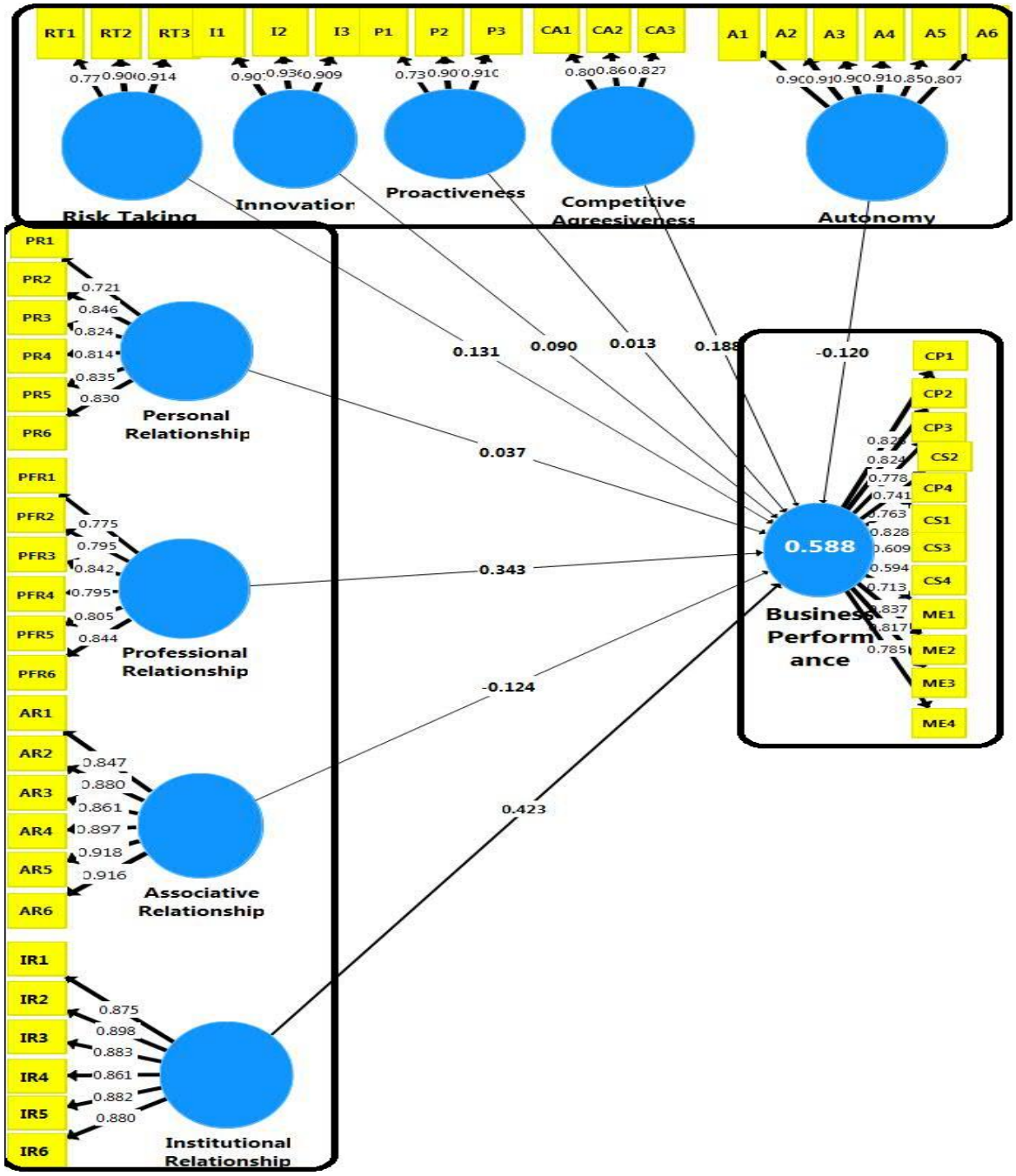
3.4.6 Data Analysis techniques

Statistical techniques including descriptive and Inferential statistics has been adopted. Partial least square based on structural Equation Modeling (PLS-SEM) method is adopted to investigate and measure research model's hypotheses.

4.5 Research Model

. The Model is represented below:

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4.6 Coefficient of Determination- -R square

It is most commonly used measure to evaluate structural models in partial least square -SEM (Joseph F Hair Jr, Hult, Ringle, & Sarstedt, 2016). The five dimensions of EO and four Social Capital Network Resources altogether explain 58.8% variance of the endogeneuos construct which is business performance. This suggests 58.8% variance is business performance is due to entrepreneurial orientation and social capial.

Table 4.13 Coefficient of Determination

	R Square	R Square Adjusted
Business Performance	0.588	0.579

4.8 Path Coefficients

The relationship of all independent variables with business performance is provided based on T-statistics and p-values. The results show that relationship of innovation and proactiveness is not significant with business performance where as other three dimensions of EO namely risk taking, autonomy and competitive aggressiveness have significant relationship with business performance. For Social Capital, all the networks of relationship have significant relationship with business performance except for personal relationship network where relationship was found to be insignificant based on values of T-statistics and p values.

Table 4.15 Path Analysis

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
AR -> Business Performance	0.218	0.220	0.069	3.153	0.002
AU -> Business Performance	0.191	0.183	0.066	2.877	0.004
CA -> Business Performance	0.220	0.223	0.079	2.792	0.005
INN -> Business Performance	0.089	0.089	0.071	1.245	0.213
IR -> Business Performance	0.496	0.493	0.069	7.172	0.000
PR -> Business Performance	0.002	0.005	0.066	0.023	0.982
PRO -> Business Performance	0.003	0.001	0.057	0.052	0.959
PRF -> Business Performance	0.441	0.436	0.100	4.414	0.000
RT -> Business Performance	0.138	0.132	0.070	1.984	0.047

4.9 Hypothesis Testing

The study is based on nine hypotheses. Five hypotheses are related to dimensions of Entrepreneurial Orientation and four are related to networks of social capital. Out of nine, three hypotheses are not supported and rejected where as six hypotheses have been supported and accepted based on results. Out of nine, three hypotheses of EO out of five have been accepted and three out of four hypotheses of social capital have been accepted.

Table 4.16 Summary of Hypothesis Results

Hypothesis Testing Results					
Hypothesis	Path	(β)	**t-value	***p-value	Result
H1	RT ➡ Business Performance	0.131	1.984	0.047	Supported
H2	INN ➡ Business Performance	0.09	1.245	0.213	Not Supported
H3	PRO ➡ Business Performance	0.013	0.052	0.959	Not Supported
H4	CA ➡ Business Performance	0.188	2.792	0.005	Supported
H5	AU ➡ Business Performance	0.120	2.877	0.004	Supported
H6	PR ➡ Business Performance	0.037	0.023	0.982	Not Supported
H7	PFR ➡ Business Performance	0.343	4.414	0.000	Supported

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H8	AR ➡ Business Performance	0.124	3.153	0.002	Supported
H9	IR ➡ Business Performance	0.43	7.172	0.000	Supported

* Beta Coefficient (β)
** t ≥ 1.96
*** p ≤ 0.05

Conclusion

The study concludes that EO dimensions of Risk Taking, Competitive Aggressiveness and Autonomy significantly & positively impacts business performance of SMEs.

Besides entrepreneurial orientation construct, the conclusion related to Social Capital is that social capital network generates resources for entrepreneur and resources through social capital network enhances business performance of SMEs in Sindh. Furthermore, it is also concluded that not all networks of social capital facilitate entrepreneurs to access relevant resources. In the current study based on entrepreneurs of Sindh it has been found that that Professional, Associative and Institutional network contributes towards economic benefits.

It is not an effective way for SMEs in Sindh to follow all constructs of EO to produce significant performance and competitive edge. The study recommends that adopting all components of Entrepreneurial orientation would results in resource inadequacies because all dimensions are not equally significant and valuable for firms.

It is important that Entrepreneurs build social capital network and maintain relationships with trade partners, volunteer associations and with institutional stakeholders to generate value for firms and to enhance business performance.

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