THE ROLE OF ENTREPRENEURIAL ORIENTATION TO SME PERFORMANCE IN BANGLADESH

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ABSTRACT

This paper has examined the relationship between SME performance and Entrepreneurial Orientation (EO) in Bangladesh. Data have been collected from the SME entrepreneurs working in Dhaka, Bangladesh. Followed by convenience sampling, a total of 193 entrepreneurs' information (out of 300) was retained using a pre-tested survey questionnaire. Correlation analysis and hierarchical regression were used to test the hypotheses. The study covered five dimensions of EO-risk-taking, innovativeness, proactiveness, competitive aggressiveness and autonomy. Except for competitive aggressiveness, all dimensions of entrepreneurial orientations possess a positive significant effect on SME performance. This study has shifted the application of EO concept from developed countries to an emerging economy to scrutinize how do different dimensions of EO determine the performance of SMEs in Bangladesh. The findings of the study also provide some insightful implications for business managers and researchers.

Keywords: Entrepreneurial orientation, SME Performance, Risk-taking, Innovativeness.

INTRODUCTION

Small and Medium Enterprises (SMEs) have been considered as the cornerstone of the business environment in every country, a principal driver of economic development and progress (Qamruzzaman & Jianguo, 2018). Universally, 99 percent of businesses typically falls into the category of SMEs enterprise segment (Gilmore et al., 2013) and SMEs have facilitated the dynamics in the most business organizations in the emerging countries as it contributes to create new jobs and generate supplementary financial capital for businesses (Wang, 2016). Hasan & Almubarak (2016) stated that businesses could not function satisfactorily unless they obtain enough buttress from small businesses. Since, business firm's entrepreneurial activities are considered as their inner capabilities which may arguably enhance the firm's successfulness in the challenging market condition (Laukkanen et al., 2013); hence, it does require prioritized attention on the EO to examine their influence on SMEs performance. Till date, several research studies have demonstrated the significant role of EO in positively affecting business firm's performance (Laukkanen et al., 2013). According to Buli (2017), for maintaining better performance and longevity of the business firms, the incorporated significance and contributory

role of EO has not been markedly investigated in the developing countries. Moreover, putting a particular emphasis on each dimension of the EO might be appropriate to gauge the contextual relationship that could vary in a specific condition (Lumpkin & Dess, 1996). Also, it will direct us to examine whether the formulated hypotheses in the past studies would sustain in the different cultural environment and support the previous findings. Therefore, this research study has taken data from the boutique and clothing related small business owners from a developing country: Bangladesh to determine the inter-relationship between SME firm performance and EO.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The expected degree of profitability from the current operational activities becomes relatively complex for which business organizations are required to look for new business opportunities; hence businesses can be benefitted by leveraging "*Entrepreneurial Orientation*" as their strategic moves (Wiklund & Shepherd, 2005). EO fuels in business performance by developing and shaping new idea-based knowledge which is essential for creating new competencies, re-designing existing competencies and promoting creative attitude within a business firm (Choi & Williams, 2016). Therefore, EO provides a strong basis for business firms to act and perform more entrepreneurially, followed by strategy-oriented actions and decisions. According to the conceptualization of Miller (1983), firms' EO can be explained by three-dimensional variables: risk-taking propensity, innovativeness, and proactivity (Matsuno et al., 2002). In recent years, some research studies have adopted two more dimensions: competitive aggressiveness and autonomy, that remained the well acknowledged dimensional aspects of EO (Lumpkin & Dess, 1996; Hughes & Morgan, 2007). Accordingly, this study assesses the effect of EO on SMEs' performance using EO's five-dimensional aspects.

Risk-taking tendency measures the inclination to invest the potential amount of resources to the opportunities which would possess a rational likelihood of both success and failure (Altinay & Wang, 2011). Firms with high risk-seeking tendency tend to obtain superior growth and profitability in the long run (Wang & Poutziouris, 2010).

Innovativeness represents a firms' propensity to involve into creative processes, experiments, and support novel ideas and these kinds of activities would create and facilitate new and innovative methods, opportunity recognition, processes and technologies (Runyan et al., 2006). Runyan et al. (2006) further stated that a small firm's owner might apply innovative techniques for enhancing their firm's performance.

Proactiveness demonstrates a firm's anticipatory action in the future market demand to gain competitive advantages over its market competitors, followed by opportunity scanning (Wales et al., 2016). According to Zahra & Covin (1995), proactive business firms are able to capitalize first mover lead and dominate over market distribution channel.

Aggressiveness represents a business firm's degree of responsiveness to its rivals (Runyan et al., 2006). Lumpkin & Dess (1996) described aggressiveness as a firm's proclivity to straightaway challenge its market competitors and to surpass the rivals. Covin & Covin (1990) exhibited that high performing firms are likely to be more aggressive in a hostile environment.

Autonomy represents an individual's independent action and self-direction in search of a new opportunity (Lumpkin & Dess, 1996). Rauch et al. (2009) found a positive relationship between a firm's performance and autonomous attitude.

Based on available literature review, we can formulate following hypotheses:

H1: Risk-taking affects SME firm's performance positively (RT ⟶ +Performance).
H2: Innovativeness affects SME firm's performance positively (INNO ⟶ +Performance).
H3: Proactiveness affects SME firm's performance positively (PRO ⟶ +Performance).
H4: Aggressiveness affects SME firm's performance positively (AGG ⟶ +Performance).
H5: Autonomy affects SME firm's performance positively (AUT ⟶ +Performance).

METHODOLOGY

Using convenience sampling method and SME Foundation's (SMEF) directory, a total of 300 structured questionnaires were randomly sent to the listed SME entrepreneurs and 227 responses were collected, out of which only 193 responses were found valid for this study. After critically reviewing the studies of Laukkanen et al. (2013); Efrat & Shoham (2013); Gürbüz & Aykol (2009); this study assesses SME firm's performance by asking the business managers/owners to rate on five-point Likert scale on the change (over the last two years) in the growth rate of sales revenues, profitability, number of employees, market share and development in retaining customers and acquiring new customer. Reliability score of this construct (six items) is found reliable (α=0.817). This study also has adopted the measurement scale of EO from Boso et al. (2013), using the five-point Likert scale. Risk-taking, proactiveness, innovativeness, autonomy and competitive aggressiveness are measured by a total of eighteen items and the scale in found reliable (α=0.750, α=0.711, α=0.679, α=0.804 and α=0.754 respectively).

Relevant demographic information is captured as control variables to examine their distinctive impact on SME performance.

RESULTS AND DISCUSSION

Table 1
CORRELATION MATRIX AMONG VARIABLES

				1	2	3	4	5	6
		Mean	SD						
1	SME Performance	4.0389	0.48240	-					
2	Risk-Taking	4.1658	0.62650	0.306**	-				
3	Innovativeness	4.1451	0.48446	0.358*	0.182*	-			
4	Proactivity	4.2988	0.50111	0.265**	0.131	0.137	-		
5	Aggressiveness	4.0812	0.69703	0.318**	0.135	0.232**	0.204**	-	
6	Autonomy	4.0294	0.58408	0.456**	0.289**	0.281**	0.251**	0.389**	-

Note: n=193, *p<0.05; **p<0.01.

The correlation analysis reveals that all the five predictive variables are significantly correlated with SME firm's performance (Table 1). The robust correlation is found between SME performance and autonomy (r=0.456), followed by innovativeness (r=0.358). Competitive aggressiveness (r=0.318), risk-taking (r=0.306) and proactiveness (r=0.265) are significantly correlated with SME performance.

The hierarchical regression analysis displays that whenever demographic factors are added in model-1, only firm age has a significant impact on firm's performance (β=0.232, p<0.01) and model 1 is evident as significant at [F (3, 189)=4.205; p<0.05], with explaining only 6.3 percent total variation. Model 2 added five dimensions of EO and model is found statistically significant at [F (5, 184)=15.718; p<0.001]; which explains that five variables of EO together explain additional variance (R^2 change) of 28.1 percent in the model. All factors except for aggressiveness are found significant predictors of SME firm's performance. Furthermore, *H1* indicates that risk-taking would positively influence the performance of SME firms and the hypothesis is supported (β=0.170; p<0.05). It reveals that SME business owners in Bangladesh tend to adopt a moderately higher level of risks. The result is consistent with past studies (Raunch et al., 2009). *H2* anticipates that firm's innovativeness would have a positive impact on SME performance and the hypothesis is accepted (β=0.147; p<0.05). The finding is conducive to the study of Zahra & Garvis (2000), who found that innovativeness in product development and operational process mechanism would lead to firms' profitability. The *H3* is that proactiveness positively impacts the firm's performance and the hypothesis is supported (β=0.150; p<0.05). The finding is consistent with past studies (Miller, 1983; Hughes & Morgan, 2007). A powerful proactive propensity capacitates a firm's capability to gauge upcoming changes in the business environment and in the customers' preferences and proactive attitudes will help to leverage external environmental opportunities (Lumpkin & Dess, 1996). The fourth assumption states that competitive aggressiveness would positively influence SME firm performance (*H4*) and this hypothesis is rejected marginally (β=0.128; p>0.05). The possible explanation could be that in the current study, 40% SME firms' age of the business falls between 0-3 years; which indicates that still, they are striving to settle their business rather than focusing too much on direct competition with the existing rivals. *H5* states that autonomy would possess a significant impact on SME performance and the hypothesis is supported (β=0.263; p<0.01). The higher will be the degree of autonomy, the higher will be the firm performance which is congruent with the study of Hughes and Morgan (2007) (Table 2).

Table 2
HIERARCHICAL REGRESSION

Model	Variable	Adjusted R^2	R^2 Change	F Change	**β** value	**t** value	Sig.	Tolerance	VIF
1	Step-1	0.048	0.063	4.205					
	Age of Firm				0.232	3.280	0.001**	0.989	1.011
	No. of Employees				0.028	0.399	0.690	0.997	1.003

	Prior Experience				-0.071	-1.001	0.318	0.987	1.013
2	Step-2	0.315	0.281	15.718					
	Age of Firm				0.165	2.632	0.009**	0.903	1.107
	No. of Employees				-0.002	-0.039	0.969	0.975	1.026
	Prior Experience				0.025	0.401	0.689	0.890	1.123
	Innovativeness				0.147	2.224	0.027*	0.821	1.219
	Risk-Taking				0.170	2.615	0.010*	0.842	1.188
	Proactivity				0.150	2.365	0.019*	0.891	1.122
	Aggressiveness				0.128	1.930	0.055	0.816	1.226
	Autonomy				0.263	3.744	0.000**	0.726	1.378
Note: *p<0.05; **p<0.01 (n=193).									

CONCLUSION

This present study has investigated the influential role of five EO dimensions on the business performance of SME boutique and clothing business firms in Bangladesh. It has been revealed that the scales of EO formulated in western developed economies, can also be adapted to a developing country like Bangladesh. The results of the current research provide with some directional courses and implications for both SME business owners/managers and research scholars. Entrepreneurial endeavours are required by the SME firms to leverage their distinctive capabilities for enhanced performance and sustainability. Hence, business managers can arrange a periodical training session for the employees to enhance their level of EO so that they could improve firm performance by tapping potential entrepreneurial opportunities. Throughout operational processes, SME firms have to encounter turbulent market attitude, the narrow scope for business opportunities and fierce competition. Their constraints can be, to some extent, tackled by adopting EO as a means of a strategic approach; through which business managers can act as more proactive, creative and risk-taker that would certainly differentiate them from the market rivals. This study is confined to one city, Dhaka and to the SME boutique and clothing business segment thus the findings may not be generalized for other industries. The study has not examined each facet of strategic orientation (i.e. learning orientation, brand orientation); the future research might adopt all elements for a more directional explanation.

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