

EFFECT OF ENTREPRENEURIAL ORIENTATION ON THE MANUFACTURING SMEs PERFORMANCE IN RATHNAPURA DIVISION, SRI LANKA

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INTRODUCTION

The competition has been increasing day by day within the modern business world. This is due to the emergence of new businesses and the increase in the quality of goods and services produced by those businesses. Entrepreneurial Orientation (EO) is a firm-level strategic orientation. It is a strategic approach that captures an organization's strategy-making practices, managerial philosophies, and healthy behaviours within the current business industry. To compete with other organizations within the sector, EO provides a unique approach to the organization. Small and Medium-sized Enterprises (SMEs) play a significant role, and their contribution to the national economy in terms of wealth creates the number of people employed. The SME sector needs to accept the challenges, including the barriers, as they move towards successful adoption of market changes while raising awareness of relevant support activities and preserving limited available resources to avoid severe consequences from costly mistakes. EO provides a better guideline to do this effectively. There are a few reasons why it is critical to continue addressing the SMEs' EO and firm performance relationship. First, because entrepreneurship has traditionally been associated with a mercantile approach, economic models of entrepreneurship are based on the assumption that entrepreneurial activities are undertaken only when profitable (Benz, 2006). Entrepreneurship entails pursuing athletic opportunities, the hope of firm expansion, profit, and wealth creation for new and existing businesses. Because entrepreneurship is an efficient discipline, with findings expected to be applicable in the real world, researchers owe it to practitioners to deliver systematic and accountable results in this field. Second, firms pursuing high EO must make risk-taking and resource allocation decisions. There is a potential downside to taking risks, and resources may be diverted to other purposes. As a result, it is critical to understand not only whether EO has a positive or negative effect on performance. Third, previous research has shown that EO or specific dimensions may differ across countries (Engelen et al., 2012; Shirokova et al., 2016). It is unclear whether this is related to the strength of the relationship between EO and performance. Fourth, previous studies have measured the impact of EO on SMEs in Sri Lanka. However, there is a gap between those studies because no studies were conducted on EO and its impact on the performance of Manufacturing SMEs in the Rathnapura Division. Fifth, however, SMEs in most emerging economies have been struggling. Their contributions have remained low; most emerging economies have less than half the percentage contribution to GDP from SMEs compared to developed economies (Makinde & Agu, 2018). It is also evident that 85 percent of SMEs face significant survival challenges, and more than 75 percent fail within five years of startup (Asian SME Summit, 2009). Sri Lanka's SME sector has grown and developed (Chadha, 2019). Undoubtedly, SMEs make up a crucial part of the Sri Lankan

economy. Accounting for 52% of total Gross Domestic Product (GDP) and 45% of national employment, these enterprises present a wealth of opportunities for domestic economic growth (Chadha, 2019). The SMEs cover broad areas of economic activity such as agriculture, mining, manufacturing, construction, and service industries. Although SMEs encompass agriculture, manufacturing, and service sector establishments, reliable data are available only for manufacturing. Within the manufacturing sector, small and medium-scale industries (SMI) account for about 96 percent of industrial units, 36 percent of industrial employment, and 20 percent of value-added (Taskforce for SMEs Development Program, 2002). However, Sri Lanka still lags behind regional neighbours regarding SMEs as a percentage of total enterprises. In India, Malaysia, and Singapore, SMEs make up 95-99% of entire enterprises, while in Sri Lanka, they barely make up 80% in 2018 (Chadha, 2019). As a result, the researchers are attempting to analyze the impact of Entrepreneurial Orientation on the performance of Manufacturing SMEs in Sri Lanka based on the Rathnapura Division in this study. Therefore, the objective of this study was to examine the effect of entrepreneurial orientation on the performance of manufacturing SMEs in the Rathnapura division, Sri Lanka.

METHODOLOGY

This study was conducted using a deductive approach, and the data was gathered using a survey strategy questionnaire. There are 110 manufacturing SMEs in the Rathnapura Division, and 86 were chosen as a sample for the survey using the Morgen table. According to the literature, researchers have identified five EO dimensions; innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy. Considering these five dimensions of EO, the following hypotheses were established in this study.

H₁: There is a significant positive effect of Innovativeness on Firm Performance

H₂: There is a significant positive effect of Risk-Taking on Firm Performance

H₃: There is a significant positive effect of Proactiveness on Firm Performance

H₄: There is a significant positive effect of Competitive Aggressiveness on Firm Performance

H₅: There is a significant positive effect of Autonomy on Firm Performance

The following conceptual framework was proposed for this study according to the previous literature on research variables.

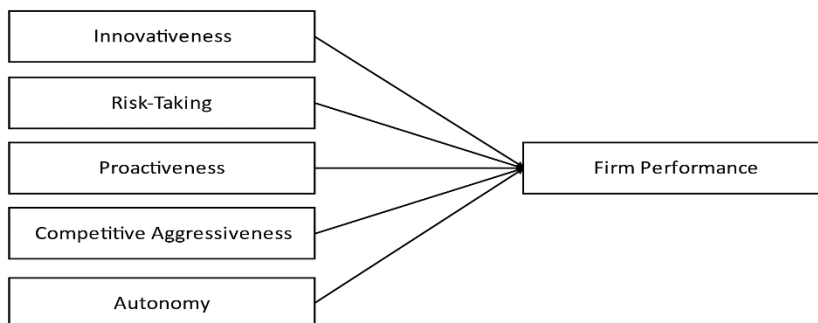


Figure 1 Conceptual Framework

RESULTS AND DISCUSSION

The data was analysed using SPSS 23. Cronbach's Alpha was used to assess the inter-item consistency reliability. As shown in Table 1, in the current study, an alpha ranges from 0.678 to 0.842 confirmed that the data are reliable; thus, further analysis was done.

Table 1 Reliability of the constructs

Variables	Cronbach's Alpha	No: of Items
Innovativeness	0.678	03
Risk-Taking	0.769	03
Proactiveness	0.842	03
Competitive-Aggressiveness	0.778	03
Autonomy	0.835	03
Firm Performance	0.705	09

Correlation analysis was used to understand the nature of relationships between two individual variables and to study the closeness of the relationship between two or more variables—table 2, which suggests the Correlation analysis of the study.

Table 2 Correlations

	Firm Performance	Sig.
Innovativeness	0.268	0.006
Risk-Taking	0.713	0.000
Proactiveness	0.481	0.000
Competitive-Aggressiveness	0.143	0.095
Autonomy	0.023	0.416

The dimensions of the EO of innovativeness, risk-taking, and proactiveness are significantly and positively correlated with firm performance, as shown in Table 2. In contrast, competitive aggressiveness and autonomy are positively but insignificantly correlated with firm performance. Regression analysis is one of the essential methods in which a statistical technique is used to construct a mathematical model that connects the dependent variable to the independent variable. In order to test the hypotheses, regression analysis was used in the current study with SPSS. The results are shown in Table 03 below.

Table 3 Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.884 ^a	.782	.769		.21729	1.588

a. Predictors: (Constant), Autonomy, Proactiveness, Risk Taking, Innovativeness, Competitive Aggressiveness
b. Dependent Variable: Firm Performance

From the R square value reported in Table 3, it can be stated that the variation in EO can explain 88.4% of the variation in firm performance. The remaining 11.6% of the variation can be attributed to other factors.

Table 4 shows the results of regression analysis.

Table 4 Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
		1	(Constant)	.529		
	Innovativeness	.033	.037	.050	.895	.023
	Risk Taking	.469	.033	.756	14.023	.000
	Proactiveness	.336	.038	.507	8.830	.000
	Competitive Aggressiveness	-.084	.037	-.127	-2.261	.026
	Autonomy	.106	.034	.169	3.086	.053

a. Dependent Variable: Firm Performance

According to Table 4, the result of EO dimensions such as innovativeness ($\beta = 0.033$, $P < 0.05$), risk-taking ($\beta = 0.469$, $P < 0.05$), and proactiveness ($\beta = 0.336$, $P < 0.05$) have a statistically significant positive impact on manufacturing SMEs performance in Rathnapura division. These findings are consistent with previous research (Al-Mamary, & Alshallaqi, 2022; Sutejo & Silalahi, 2021; Fairouz et al., 2010). Based on the results, hypotheses 1, 2, and 3 are supported. Furthermore, competitive - aggressiveness has a significant negative impact on firm performance ($\beta = -0.084$, $P < 0.05$), which is consistent with the literature (Lechner, & Gudmundsson, 2012; Giachetti, 2015). As a result, hypothesis 4 was rejected. Furthermore, autonomy ($\beta = 0.106$, $P > 0.05$) had a statistically insignificant positive effect on firm performance. This result is consistent with the study of Al-Mamun and Fazal findings (2018). Based on the results, hypothesis 5 is also rejected.

CONCLUSIONS AND IMPLICATIONS

The study found that, of the five EO dimensions, innovativeness, risk-taking, and proactiveness have a significant positive correlation and impact on the performance of manufacturing SMEs. Competitive aggressiveness had an insignificant positive correlation with firm performance and a significant adverse effect on firm performance. Furthermore, autonomy had a positive but insignificant correlation and impact on firm performance in Rathnapura division manufacturing SMEs. According to the country's new normal situation, the economy is still recovering from the damage caused by the COVID-19 pandemic. As a result, it is possible that competing with competitors and spending much money on them will not impact the firm's performance. Because customers are still not looking for unique features in the products they buy. They only wanted the products to meet their day-to-day needs. This study met the research objectives of determining the effect of EO on the performance of manufacturing SMEs. Furthermore, the current research discovered that manufacturing SMEs' firm performance could be improved by improving the EO.

Keywords: Autonomy, competitive aggressiveness, entrepreneurial orientation, firm performance, risk-taking

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