










“Revisiting the impact of entrepreneurial orientation on SMEs’ organizational performance”

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REVISITING THE IMPACT OF ENTREPRENEURIAL ORIENTATION ON SMEs' ORGANIZATIONAL PERFORMANCE

Abstract

This study investigates the impact of five dimensions of entrepreneurial orientation (risk-taking, proactiveness, innovativeness, aggressiveness, and autonomy), an independent variable, on SMEs' organizational performance in Bangladesh. The study surveyed 237 SMEs' owners (out of 300, with a response rate of 79%) in Gazipur district, Bangladesh. Cronbach's alpha (α) value of 0.70 was used to examine the reliability of the constructs in this study. Drawing from earlier research, a five-point Likert scale questionnaire was constructed to assess the links between entrepreneurial orientation and SMEs' organizational performance. The dependent variable in this study was SMEs' organizational performance, which was based on business growth, change in number of employees, profitability, and sales growth. The hypotheses were tested using SPSS with a 95% confidence interval. The results suggest that all five dimensions of entrepreneurial orientation positively affect the organizational performance of SMEs in Bangladesh. It is evident that proactiveness (β -value = 0.330) has the greatest effect on SMEs' organizational performance, and competitive aggressiveness has the least effect (β -value = 0.230). The independent variables explain a significant proportion of the variability observed in SMEs' organizational performance ($R^2 = 57.4\%$). The research outcomes offer valuable implications for entrepreneurs, policymakers, and academics.

Keywords

SMEs, organizational performance, entrepreneurial orientation, risk-taking, proactiveness, innovativeness

JEL Classification

D23, L25, L26

INTRODUCTION

Small and medium-sized enterprises (SMEs) create job opportunities and drive socio-economic development. Various categories of micro-enterprises, including full-time and part-time operations, those located within residential areas, street-front establishments, and agricultural activities, collectively contribute to facilitating entrepreneurial endeavors. The micro-enterprises have the potential to significantly contribute to the socio-economic improvement of economically disadvantaged households, supporting a sustainable path of economic growth (Akhter et al., 2022). SMEs are widely recognized as essential components of the business environment in every country. They play a crucial role in driving economic progress and development (Kiyabo & Isaga, 2020). In various emerging economies, many commercial enterprises are categorized as SMEs. As a result, this segment plays a crucial role in driving transformation within these economies. The transformative essence is demonstrated by creating new job opportunities and providing additional financial capital to businesses (Zayed et al., 2022a).

The functionality of businesses is significantly influenced by the substantial support provided by small and medium-sized enterprises (SMEs), leading to an optimal equilibrium. The performance of SMEs can be influenced by their ability to engage in entrepreneurial activities, which can enhance their effectiveness in competitive markets. To understand this impact, it is crucial to consider the concept of entrepreneurial orientation and its implications. Given the information above, it is necessary to prioritize the empirical investigation of entrepreneurial orientation's influence on SMEs' organizational performance. This is particularly important due to these enterprises' significant role in shaping the business environment and fostering economic advancement. Numerous research studies have examined the substantial impact of entrepreneurial orientation on enhancing the performance of business firms. The investigation of examining essential functions of entrepreneurial orientation in developing countries has not been extensively explored despite its potential to enhance business performance and longevity.

1. LITERATURE REVIEW

Small and medium-sized enterprises (SMEs) play a crucial role in stimulating economic expansion and promoting prosperity. SMEs have increasingly recognized the significance of the dimensions of entrepreneurial orientation in their pursuit of sustainable competitive advantages. These dimensions, namely risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness, are considered critical factors that impact the organizational performance of SMEs.

Entrepreneurial orientation functions as a catalyst for improving business performance by fostering and refining knowledge based on innovative concepts. Understanding this idea is crucial for developing new skills, adapting current abilities, and promoting innovations within the organizational structure (Wales et al., 2013; Covin & Wales, 2012). Based on Miller's (1983) theoretical framework, firms' entrepreneurial orientation can be characterized by several multidimensional constructs, including their inclination toward risk-taking, innovativeness, and proactiveness (Matsuno et al., 2002). It is widely recognized as a critical factor in driving a firm's growth and enhancing its productivity (Frank et al., 2010). Firms inherently aim to achieve significant growth across all facets of their operations. Research findings have indicated a positive correlation between a company's entrepreneurial orientation and its ability to achieve high levels of growth (Arshad et al., 2014). The existing scholarly discussion has further developed by including two additional dimensions: competitive aggressiveness and autonomy. Hughes and Morgan (2007) have recognized these dimensions as essential aspects of entrepreneurial orientation.

As proposed by Altinay and Wang (2011), the metric of risk-taking inclination measures the tendency to allocate resources toward opportunities with a rational probability of resulting in both successful outcomes and failures. Their interconnectedness emphasizes the inseparability of risk assumption and entrepreneurial pursuits (Danso et al., 2016). Entrepreneurs are distinguished by their capacity to undertake risks. This premise is supported by Kirby's (2004) assertion, which argues that entrepreneurs are inclined to take risks. Moreover, Lüthje and Franke (2003) provided evidence of a positive relationship between an increased inclination for risk-taking and involvement in entrepreneurial endeavors. In a broader context, entrepreneurs adopt a proactive approach toward risk, recognizing it as a strategic tool to differentiate themselves from their competitors. In the current era of highly competitive business environments, individuals who demonstrate a proactive attitude toward taking risks establish themselves as leaders (Keh et al., 2007). Engaging in risk-taking generates opportunities and promotes progress (Antoncic et al., 2018; Kreiser & Davis, 2010; Macko & Tyszka, 2009). The expected outcome on performance is predicted to be positive due to the entrepreneur's risk propensity level. According to Wang (2016), entrepreneurs have the potential to achieve leadership positions in their respective domains by taking risks that their competitors may be reluctant to pursue.

Innovation refers to the systematic efforts of individuals or organizations to generate new products, procedures, and concepts or to implement creative approaches to existing products, procedures, and ideas (Uddin et al., 2014; Avlonitis & Salavou, 2007). In order to enhance performance,

firms must allocate additional resources toward investment in new technology, thereby fostering innovativeness (Fan et al., 2021). Entrepreneurial pursuits of this nature are instrumental in stimulating and accelerating unexplored and innovative business methodologies, identifying emerging opportunities, refining business processes, and incorporating state-of-the-art technologies (Runyan et al., 2006). Innovativeness is significant in a firm's strategic framework, especially for small-scale entrepreneurs who utilize innovative ideas to improve their business performance (Lumpkin & Dess, 1996). Jalali et al. (2022) and Huang et al. (2022) demonstrated a notable link between innovativeness and performance.

Proactiveness in management refers to an operational approach in which organizational leadership actively conducts affairs with a proactive intent (Kosa et al., 2018). This entails actively seeking new opportunities for the organization and taking pre-emptive measures to address potential threats or challenges before they arise (Wales et al., 2016). Proactive entities demonstrate exceptional proficiency in formulating strategies and implementing plans to shape their desired future outcomes. By doing so, they proactively avoid depending on external factors to determine their course of action (Wiklund & Shepherd, 2005). By implementing a proactive approach, business owners can effectively reduce the potential impact of unforeseen disruptions. These enterprises demonstrate a high level of proficiency in identifying market needs that have not been addressed and effectively meet those needs by introducing innovative products and services. The ability to anticipate future developments enables organizations to strategically position themselves as leaders in innovation, allowing them to effectively implement the necessary actions and strategies. One key factor that drives the phenomenon is the tendency for agile, small-scale enterprises to lead the way in transformative innovations (Roux & Bengesi, 2014). Adopting a proactive approach provides businesses a wide range of benefits when navigating opportunities and overcoming challenges (Zahra & Covin, 1995).

Autonomy refers to an individual's ability to independently engage in self-directed actions and pursue novel opportunities without external influence or guidance (Lumpkin & Dess, 1996). This concept

refers to the capacity and tendency to independently initiate actions to explore market opportunities. Autonomy refers to the ability of an individual or a team to independently take initiatives aimed at conceptualizing and implementing a business vision, thereby ensuring its successful realization (Li et al., 2009). The focus on autonomy enables enterprises to make decisions quickly and independently, which helps them introduce new products or services to emerging markets (Frese et al., 2002). In the context of emerging startups, personnel must have a higher level of autonomy and self-regulation. This enables them to determine necessary actions and develop optimal strategies for execution. Rauch et al. (2009) argued that a positive connection existed between an enterprise's performance and its inclination toward autonomy. This concept is supported by multiple scholars, including Hossain and Asheq (2019) and Lumpkin et al. (2009). They argue that creating an environment of autonomy for all members of an organization can stimulate an entrepreneurial drive, leading to improved overall performance of the firm.

Aggressiveness refers to the level of responsiveness of a business enterprise toward its competitors in the market landscape (Runyan et al., 2006). Lumpkin and Dess (1996) further elaborated on this concept, defining aggressiveness as the inclination of a company to swiftly initiate direct competition with its competitors in the market, aiming to surpass its competitive position. Competitive aggressiveness refers to the extent to which companies face significant, long-lasting, complex, and unpredictable competitive challenges from major players in their industry (Chen et al., 2015). According to J. Covin and T. Covin (1990), companies with higher levels of performance tend to display increased levels of aggressiveness, especially in environments marked by hostility and contention. Luo and Lin (2022) revealed a positive correlation between competitive aggressiveness and firm performance.

A literature review offers valuable information and concrete suggestions for small and medium-sized enterprises seeking to improve their organizational performance and thrive in an evolving business climate. The five dimensions of entrepreneurial orientation are crucial components that significantly impact SMEs' organizational performance.

2. AIM AND HYPOTHESES

Past studies did not consider the five dimensions of entrepreneurial orientation. Hence, it is important to emphasize every element of entrepreneurial orientation to assess the situational connection, which may vary under certain conditions.

This study aims to identify the impact of five dimensions of entrepreneurial orientation (risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness) on SMEs' organizational performance. The study proposes a research framework (Figure 1) based on the study hypotheses to achieve this objective:

- H1: *Risk-taking positively affects SMEs' organizational performance.*
- H2: *Innovativeness positively affects SMEs' organizational performance.*
- H3: *Proactiveness positively affects SMEs' organizational performance.*
- H4: *Autonomy positively affects SMEs' organizational performance.*
- H5: *Competitive aggressiveness positively affects SMEs' organizational performance.*

3. METHODS

The study collected data from a diverse array of SMEs situated in Gazipur district, Bangladesh. Gazipur district is renowned for its substantial

concentration of SMEs within its urban confines. This sample selection was executed through a random sampling procedure, thereby qualifying as a non-probability sampling approach. In total, a batch of 300 survey questionnaires was dispatched to the designated business addresses of SMEs. Each questionnaire was accompanied by a cover letter expounding the significance of the research endeavor. After the mailing phase, the research team conducted periodic phone outreach and visited the offices of the selected firms. The construct of organizational performance (ORGP) was adopted from Damanpour et al. (1989), risk-taking (RSKTK), innovativeness (INNOV) and proactiveness (PROCTIV) were adopted from Uddin et al. (2014), autonomy (AUTON) was adopted from Luo and Lin (2022), and finally competitive aggressiveness (COMAGG) was taken from Covin and Covin (1990).

A face-to-face survey was administered directly to the entrepreneurs during these office visits. These efforts yielded responses from 250 SMEs' owners who completed the questionnaires. Among these responses, a subset of 237 was identified as fully comprehensive. Consequently, the final sample size for analysis amounted to $n = 237$. According to Hoerl (2008), it is recommended that sample sizes exceeding 200 be considered suitable for multivariate research and sufficient for data analysis. The survey instrument employed for data collection was structured into two distinct sections. The first section encompassed inquiries concerning fundamental information regarding the SMEs' proprietors. The subsequent section featured a series of Likert-based questions focused on dimensions related to entrepreneurial orientation and performance.

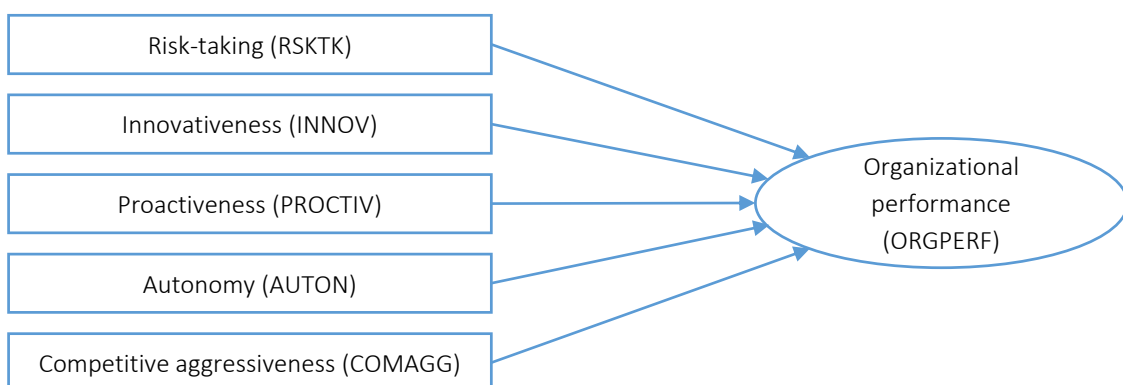


Figure 1. Research framework

Table 1. Reliability and validity analysis

Construct	Items	Loading	Cronbach's (α) value
Risk-taking (RSKTK)	RSKTK1	0.859	0.748
	RSKTK2	0.947	
	RSKTK3	0.749	
Innovativeness (INNOV)	INNOV1	0.836	0.746
	INNOV2	0.746	
	INNOV3	0.821	
Proactiveness (PROCTIV)	PROCTIV1	0.846	0.839
	PROCTIV2	0.936	
	PROCTIV3	0.773	
Autonomy (AUTON)	AUTON1	0.900	0.730
	AUTON2	0.803	
Competitive aggressiveness (COMAGG)	COMAGG1	0.703	0.883
	COMAGG2	0.802	
Organizational performance (ORGPREF)	ORGPREF1	0.738	0.902
	ORGPREF2	0.837	
	ORGPREF3	0.773	
	ORGPREF4	0.935	

Note: $n = 237$.

The statistical assessments are conducted using SPSS version 28.0. Regression analysis is intentionally utilized to assess the influence of dependent variables on the performance of small and medium-sized enterprises (SMEs). Table 1 shows the reliability and validity of the study variables; all study variables are reliable and valid.

4. RESULTS

Table 2 provides a detailed overview of the demographic composition of the research participants, who are exclusively SMEs' owners. The dataset consists of 237 respondents, each providing essential information that collectively contributes to a comprehensive understanding of the sampled entrepreneurial population. The sample analysis reveals that a significant majority, 70.5%, self-identify as male. In contrast, the remaining 29.5% comprises female entrepreneurs. The observed gender-based distribution highlights the predominant presence of male proprietors in the examined SMEs' landscape.

Table 2. Demographic information

Variables	Number	Percentage
Gender		
Male	167	70.5%
Female	70	29.5%

Variables	Number	Percentage
Education		
High school	64	27.0%
Undergraduate degree	45	19.0%
Postgraduate degree	44	18.6%
M.Phil/Ph.D. degree	84	35.4%
Job Experience		
Less than 5 years	98	41.4%
5 to 10 years	88	37.1%
More than 10 years	51	21.5%
Age of the SMEs		
0-3 years	142	59.9%
4-6 years	65	27.4%
7-9 years	27	11.4%
More than 9 years	3	1.3%

Note: $n = 237$.

The educational attainment of SMEs' owners reveals a diverse range of educational levels. Significantly, 27.0% of the participants possess a high school diploma, whereas 19.0% have successfully finished their undergraduate studies, suggesting the presence of a group with formal tertiary education. Additionally, 18.6% of individuals hold postgraduate degrees, indicating a strong preference for pursuing higher academic achievement. A noteworthy portion of the sample, specifically 35.4%, possesses M.Phil or Ph.D. degrees. Well-educated entrepreneurs in the surveyed SMEs' domain significantly enhance intellectual capital. Upon analyzing the combined professional experience of the respondents, a discerning delineation becomes apparent. A total of 41.4% of small and medium-sized enterprise owners possess job experience that is less than 5 years. A similar percentage, 37.1%, is observed within the 5 to 10-year timeframe, suggesting a group with moderate professional experience. The remaining 21.5% of participants are characterized by their tenure of over 10 years, indicating a group with significant experience.

Regarding the temporal progression of SMEs, the data indicate that a significant proportion, accounting for 59.9%, is observed during the initial 0-3 years of operation. The high number of emerging businesses highlights their importance in SMEs' sector. Furthermore, it is worth noting that 27.4% of SMEs have reached a level of maturity within the 4-6-year timeframe. This indicates that these entities have successfully navigated the initial phase of establishment. The smaller contingent, which accounts for 11.4%, consists of enterprises that have been operational for 7-9 years, indicating a consistent presence in the market. Notably, only a small percentage, 1.3%,

Table 3. Correlation matrix

Variables	RSKTK	INNOV	PROCTIV	AUTON	COMAGG	ORGPREF
Risk-taking (RSKTK)	1					
Innovativeness (INNOV)	0.308**	1				
Proactiveness (PROCTIV)	0.532**	0.177	1			
Autonomy (AUTON)	0.228**	0.103	0.204**	1		
Competitive aggressiveness (COMAGG)	0.408**	0.077	0.123	0.119	1	
Organizational performance (ORGPREF)	0.301**	0.228**	0.432**	0.206**	0.432**	1

Note: ** $p < 0.05$ ($n = 237$).

of SMEs can surpass the 9-year mark, indicating a limited number of well-established companies in this sector.

The correlation matrix in Table 3 analyzes the relationships between variables in the study, emphasizing their association with the dependent variable, organizational performance.

The analysis shows notable correlations between organizational performance and various key dimensions. A noteworthy finding reveals a moderate positive correlation between risk-taking and organizational performance, with a coefficient of 0.301**. This indicates that individuals who take risks are more likely to experience improved organizational performance. Additionally, innovativeness, proactiveness, and competitive aggressiveness display substantial positive correlations with organizational performance. Innovativeness demonstrates a moderate correlation of 0.228**. This indicates that organizations that adopt innovative practices tend to attain higher performance levels. Proactiveness exhibits a higher correlation coefficient of 0.432**, indicating a stronger relationship. This suggests that organizations implementing proactive strategies are more

likely to perform better. Competitive aggressiveness exhibits a notable positive correlation of 0.432**, indicating that organizations possessing a competitive advantage are more inclined to achieve superior performance outcomes.

Additionally, a regression analysis was conducted to examine the relationship between the dimensions of the independent and dependent variables. The R-squared value, as presented in Table 4, was determined to be 0.574, signifying that the collective independent variables explain 57.4% of the variance found in the dependent variable.

Therefore, if the given values are substituted into the regression equation, it is expressed as:

$$\begin{aligned}
 Y(\text{organizational performance}) &= 0.208 + 0.294(X_1 = \text{risk-taking}) \\
 &+ 0.297(X_2 = \text{innovativeness}) \\
 &+ 0.330(X_3 = \text{proactiveness}) \\
 &+ 0.419(X_4 = \text{autonomy}) \\
 &+ 0.293(X_5 = \text{competitive aggressiveness}).
 \end{aligned}
 \tag{1}$$

Table 4. Model summary of regression analysis

Model	R	R ²	Adjusted R ²	S _e
1	0.758	0.574	0.571	0.29927

Note: Independent variables: Risk-taking (RSKTK), Innovativeness (INNOV), Proactiveness (PROCTIV), Autonomy (AUTON), Competitive aggressiveness (COMAGG), Dependent Variable: Organizational performance (ORGPREF).

Table 5. Regression coefficients

Variables	β value	t- value	Sig.	Tolerance	VIF
(Constant)	0.208	2.114	-	0.883	1.038
Risk-taking (RSKTK)	0.294	2.777	0.000**	0.643	2.772
Innovativeness (INNOV)	0.297	2.907	0.000**	0.736	1.023
Proactiveness (PROCTIV)	0.330	4.073	0.000**	0.873	2.234
Autonomy (AUTON)	0.419	4.589	0.000**	0.629	2.037
Competitive aggressiveness (COMAGG)	0.293	2.873	0.000**	0.936	2.247

Note: Durbin Watson value = 2.106. * $p < 0.10$; ** $p < 0.05$ ($n = 237$).

Table 6. Summary of hypotheses testing

H	Definition	Result
H1	Risk-taking positively affects SMEs' organizational performance	Accepted
H2	Innovativeness positively affects SMEs' organizational performance	Accepted
H3	Proactiveness positively affects SMEs' organizational performance	Accepted
H4	Autonomy positively affects SMEs' organizational performance	Accepted
H5	Competitive aggressiveness positively affects SMEs' organizational performance	Accepted

Table 5 demonstrates that the *p*-values associated with risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness are below the threshold of 0.05. This signifies that these three factors significantly influence SMEs' organizational performance.

5. DISCUSSION

The first hypothesis posits an association between risk-taking and SMEs' organizational performance in Bangladesh. The findings show a strong connection between risk-taking and organizational performance, indicating a positive relationship ($\beta = 0.294$; *p*-value < 0.05). This result is backed up by Hossain and Asheq (2019) and Rauch et al. (2009). The business sector is commonly acknowledged as an endeavor inherently involving risk. Consequently, the inclination to take risks is fundamental to achieving successful business performance (García-Lopera et al., 2022). The act of embracing risks presents a viable approach to cultivating opportunities and making progress. When entrepreneurs take on particular risks that their competitors are unwilling to take, they can establish themselves as leaders in their industry (Wang, 2016). The findings suggest that SMEs' owners who exhibit a greater inclination toward taking risks are more likely to achieve higher levels of organizational performance. Taking risks in SMEs allows these businesses to effectively adapt to the ever-changing and dynamic conditions of the market. Embracing calculated risks fosters a culture that prioritizes ongoing improvement, drives organizational performance through discovering fresh opportunities, efficiently allocates resources, and improves competitive positioning.

The second hypothesis posits an association between innovativeness and SMEs' organizational performance in Bangladesh. The findings demonstrated a powerful link between innovativeness and organizational performance, indicating

a positive relationship ($\beta = 0.297$; *p*-value < 0.05). This result is supported by Uddin et al. (2014). The findings suggest that SMEs' innovation level is closely associated with the extent of their organizational performance. The innovativeness of owners in small and medium-sized enterprises plays a crucial role in driving the development of products and services, optimizing processes, and expanding into new markets. Their inventiveness and eagerness to look into novel ideas contribute to increased competitiveness, customer value, and long-term growth, positively impacting organizational performance. SMEs must possess the ability to leverage innovative concepts to enhance their business performance (Runyan et al., 2006).

The third hypothesis suggests a positive relationship between proactiveness and SMEs' organizational performance in Bangladesh. The results revealed a positive link between proactiveness and organizational performance, indicating a positive relationship ($\beta = 0.330$; *p*-value < 0.05). This result is supported by Hughes and Morgan (2007). It suggests that SMEs' owners with a proactive attitude will achieve greater organizational performance in the long run. Past research has indicated that proactive behavior exhibited by SMEs positively impacts performance in times of economic crisis (Kraus et al., 2012).

The fourth hypothesis suggests a positive relationship between autonomy and SMEs' organizational performance in Bangladesh. The findings show a positive link between autonomy and organizational performance, indicating a positive relationship ($\beta = 0.419$; *p*-value < 0.05). This result is supported by Hossain and Asheq (2019). Greater levels of autonomy correspond to elevated firm performance, aligning with Hughes and Morgan (2007). The owners' autonomy in small and medium-sized enterprises facilitates rapid decision-making, agile adaptation to market changes, and the development of tailored strategies. Empowering owners can leverage their extensive business knowledge,

quickly adjust to obstacles, and take advantage of opportunities. This ultimately leads to improved organizational performance and resilience.

The fifth hypothesis suggests a positive relationship between competitive aggressiveness and SMEs' organizational performance in Bangladesh. The findings show a positive link between aggressiveness and organizational per-

formance, indicating a positive relationship ($\beta = 0.293$; p -value < 0.05). This result is supported by Luo and Lin (2022). The competitive aggressiveness of owners in small and medium-sized enterprises drives proactive market actions, resource allocation, and differentiation strategies. This dynamic approach results in the improvement of market share, innovation, and performance.

CONCLUSION

This paper examined the five dimensions of entrepreneurial orientation that contribute to the organizational performance of SMEs in Bangladesh. The extant literature has identified five key dimensions that have been found to significantly contribute to organizational performance: risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness. The paper utilized a sample size of 237 SMEs' owners operating in the business sector. A regression analysis examined the relationship between the independent variables and the organizational performance of small and medium-sized enterprises. The results indicated that risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness were found to be statistically significant predictors of SMEs' organizational performance.

The results provide valuable insights and implications for both SMEs' owners or managers and academic researchers. Entrepreneurial pursuits are crucial to the strategic direction of SMEs. This enables them to leverage their unique capabilities to attain higher performance and secure long-term sustainability. Given the circumstances, it is recommended that business managers organize regular training sessions for their staff to foster a heightened entrepreneurial orientation. This strategic initiative has the potential to cultivate a culture of innovation and encourage employees to take risks. Additionally, it can facilitate the discovery and utilization of untapped entrepreneurial opportunities, ultimately enhancing the overall organizational performance of SMEs.

AUTHOR CONTRIBUTIONS

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