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## **Entrepreneurial Orientation and the Mediating Role of Organisational Learning amongst Indian S-SMEs**

### **Abstract**

**Purpose:** This study examines organisational learning as a mediator among Small-Scale Manufacturing Enterprises (S-SMEs) which comprise the majority of economic activity in an emergent/developing economy. This study offers further understanding regarding the mediating role of organisational learning in developing world economies, due to its potential regional influence.

**Design/methodology/approach:** A cross-sectional survey of Indian S-SMEs was undertaken from the District Industrial Center. The study employed a systematic sampling technique to contact owner/managers. Overall, 204 S-SMEs owners/managers participated in the study and 192 usable survey instruments were received.

**Findings:** The study offers novel insights to the following questions. First, the factors that prompt entrepreneurial orientation to achieve superior business performance, i.e. the antecedents of entrepreneurial orientation? The results reveal competitor orientation is an antecedent of entrepreneurial orientation that leads to an S-SME's business performance. Second, the outcomes of entrepreneurial orientation, i.e. the consequences of entrepreneurial orientation? The study reveals organisational learning and business performance are the corollary of entrepreneurial orientation. Third, the examination of whether organisational learning mediates the relationship between entrepreneurial orientation and business performance? The findings found the effects of entrepreneurial orientation on business performance are, in part, mediated by organisational learning.

**Research limitations:** The present study is not devoid of limitations which need to be addressed in future studies. First, the present study has not included other strategic orientations, like technology orientation, production orientation and selling orientation which also play a crucial role in business performance. Second, other constructs may have significant relationship with market and entrepreneurial orientation which has been ignored by the present study. Third, the study is industry-sector specific and has not considered alternative sectors which also may play a potential role.

**Originality/value:** This study enhances the existing S-SME literature by identifying factors contributing to entrepreneurial orientation and its repercussions on business performance. For S-SMEs, it adds credence to the role played by organisational learning in mediating the link between entrepreneurial orientation and business performance which potentially encourages owner/managers to dedicate increased time and resources toward creating and maintaining a conducive learning environment. The results support entrepreneurs in acknowledging the importance of competitor orientation during the emergence and development of entrepreneurial orientation, specifically in emerging economy contexts.

## Introduction

Entrepreneurial behaviors have attracted significant attention in both the popular press and academic literature, with such behaviors being encouraged by governments as they are considered key drivers in a country's economic well-being (Ghani *et al.*, 2014; Beynon *et al.*, 2016). The literature asserts many benefits and one of the salient views is that an entrepreneur's inclination towards risk-taking, pro-activeness and innovativeness are compelling features of entrepreneurial orientation (Covin and Lumpkin, 2011), while Wiklund and Shepherd (2003) suggest that firms embracing such an entrepreneurial orientation perform more effectively than firms that do not.

Separate to entrepreneurial orientation, market orientation is a central tenet for a small business (Ledwith and O'Dwyer, 2008) and with a far-reaching influence on a firm's entrepreneurial orientation (Nasution *et al.*, 2011). In examining these two relationships, Grinstein (2008) found that market orientation was correlated with entrepreneurial orientation, because, during the nascent stages, it enabled a firm to learn and adapt to its environment and react to opportunities and threats. Whilst Bhuian *et al.* (2005) and Matsuno *et al.* (2002) concluded that firms having a high tendency towards market orientation are typically found to be more entrepreneurially oriented. However, firms adopting both market orientation and entrepreneurial orientation achieve improved performance. Thus, it stands to reason that firms seeking to achieve enhanced performance look to strengthen their learning (Lin *et al.*, 2008). Covin *et al.* (2006) provided a deeper insight into understanding the learning phenomenon in entrepreneurial-firm contexts, because an organisational learning culture exerts a profound influence on its performance (García-Morales *et al.*, 2012), with organisational learning viewed as a positive driver (Khandekar and Sharma, 2005). A review of the literature highlights that scholars have sought to understand many aspects of entrepreneurial behaviour but despite these

contributions, Rosenbusch *et al.*, (2013) called for further amplification of the literature by exploring models of entrepreneurial orientation, its antecedents, and consequences.

This study contributes to the literature by examining organisational learning as a mediator among Small-Scale Manufacturing Enterprises (S-SMEs) which comprise the majority of economic activity in an emergent/developing economy (Donner and Escobari, 2010). This study offers a deeper assessment of the mediating role of organisational learning in developing world economies, due to its potential regional influence.

Moreover, identifying the conditions that foster entrepreneurial behavior is essential for underpinning growth (Ghani *et al.*, 2014). Specifically, in a call to further understanding of entrepreneurial behavior, Ghani *et al.*, (2014, p. 1074) state, “*Multiple studies consider advanced economies, but there is very little empirical evidence for developing countries. This lack of research hampers the effectiveness of policy.*” The existing literature focuses predominantly on established Western economies (Wang, 2008) meaning that they are limited because with their well-developed infrastructures Western based samples bear minimal comparison to developing economies such as India. By focusing this study on Indian S-SMEs the authors respond to Ghani *et al.*, (2014) call for research in a developing economy context.

As Wales *et al.*, (2013) considered India as a strategically important developing economy where study on EO should be conducted, therefore the present research has chosen S-SMEs in India. S-SMEs in India have more than 5% contribution in its gross domestic product, occupy one-third of national exports and a sizeable portion of manufacturing sector. India takes pride in its S-SMEs and they are the backbone of manufacturing sector, however India has minimal presence in literature of entrepreneurship in emerging market (Bruton *et al.*, 2008) and further research has been called for (Mishra, 2016). Hence, it would be meaningful to study the relationship of EO and performance in emerging economies like India, as Indian

institutional set-up in particular and emerging economies in general are dynamic in nature (Peng *et al.*, 2008).

Using Indian S-SMEs to address some of the deficiencies in the extant literature, this study adds to the knowledge base in three ways. First, is the examination of market orientation as the antecedent of entrepreneurial orientation, second, it analyses the consequences of entrepreneurial orientation, and finally it investigates the important mediating role of organisational learning as part of the entrepreneurial orientation and business performance association.

### **Theoretical and Hypotheses Development**

Narver and Slater (1990) set out a canonical view of market orientation with an emphasis on an operational focus (Baker and Sinkula, 1999) and the empirical evidence pointing toward a positive impact on business performance (Zhou *et al.*, 2007). Market orientation is considered to be an overarching business strategy (Zhou *et al.*, 2007) given that it is an organisation's characteristic (Baker and Sinkula, 1999) offering both the salient dimensions of customer and competitor orientation that are integral to market orientation (Sørensen, 2009). While their importance is not called into question, there is a lack of cohesion as to whether, conceptually, both customer and competitor orientation are equally important (Zhou *et al.*, 2007).

Customer orientation is associated with market orientation with Deshpandé *et al.* (1993, p. 27) stating it is “*a set of beliefs that puts the customer's interest first.*” Positioning customer orientation as a compelling construct, Slater and Narver (1994) argue the lens is on understanding customer requirements. Whilst Zhou *et al.* (2005) contend that it positively influences the organisation's innovativeness and new product advantage. Alongside customer, competitor orientation is recognised to be the other key component of market orientation.

Sørensen (2009) posits that despite its importance to market orientation, competitor orientation should be examined based on how analogous it is with other behavioural outcomes. Competitor orientation results in an understanding of competitors' capabilities (Narver and Slater, 1990; Deshpandé *et al.*, 1993) and is an opportunity to benchmark and evaluate performance (Smirnova *et al.*, 2011).

The emphasis of entrepreneurial orientation is on constructing an advantage through various behaviors (Dess *et al.*, 2005). Prior studies suggest entrepreneurial orientation is unidimensional (Covin and Slevin 1989) while others (Lumpkin and Dess 2001) point out that it is a complex phenomenon. Miller (1983), in its original form, conceptualised entrepreneurial orientation as consisting of innovativeness, proactiveness and risk-taking, latterly Lumpkin and Dess (1996) added autonomy and competitive aggressiveness.

The topic of business performance is disparate and this diversity results in a lack of a generalizable definition, with different research streams embracing their own viewpoint (Franco-Santos *et al.*, 2007). A common distinction within the literature is that business performance consists of financial (Return on Investment) and non-financial (e.g. customer satisfaction etc.) measures (Rauch *et al.*, 2009). Therefore, given this precedent both financial and non-financial measures are included in our study.

### *Mediating Variable*

Given the important behavioral distinction between a moderator and mediator variable (Baron and Kenny, 1986), in adding to the literature this study places organisational learning as a mediating variable within the conceptual framework. When it first entered the academic lexicon there was a lack of coherence as to what constituted organisational learning (Crossnan *et al.*, 1999). Consequently, organisational learning is the organisational's capability, or

process through which it creates knowledge (Argote and Miron-Spektor, 2011), suggesting that it is an integral function of strategic planning (García-Morales *et al.*, 2012).

Owing to a lack of a cohesive integrative theory linking market orientation, entrepreneurial orientation, organisational learning, and business performance in a single framework, this study combines several theories to provide a nuanced, comprehensive and generalisable framework detailing the relationships. The framework's constructs were selected because they are supported by the literature suggesting business performance is influenced by the antecedents and that organisational learning has a compelling role (Lumpkin, and Brigham, 2010; Rhee *et al.*, 2010; Murray *et al.*, 2011; Zhao *et al.*, 2011).

### **Antecedents of Entrepreneurial Orientation**

Owing to their structural and functional idiosyncrasies, S-SMEs stand to gain an advantage from face-to-face interaction with customers and markets (McCartan-Quinn and Carson, 2003). Moreover, flexibility in a firm's structure enables it to accumulate market-related data that chronicle customers' evolving requirements and competitors' potential strategies (Pelham, 2000). This means that entrepreneurial orientation is a strategic decision that, when harmonised with an organisational culture, directs strategy and approach towards innovating new market offerings, developing market niches and expanding business activities (Stevenson and Jarillo, 1990). Thus, an entrepreneurial orientation substantially influences a S-SME's performance and growth.

For entrepreneurially oriented firms, market orientation occupies a strategic role that encourages the acquisition of new knowledge and the requirements to familiarise with novel environments (Li *et al.*, 2010). Such an approach allows firms to take advantage of new opportunities and confront prospective threats (Luo *et al.*, 2005). Seilov (2015) proposes a positive significant relationship between customer and competitor orientations (two key

components of market orientation). Furthermore, Sciascia *et al.* (2006, p. 32) state that, “*market orientation is the most relevant determinant of entrepreneurial orientation.*” It helps to introduce and improve breakthrough innovations to fulfil the evolving requirements of customers (Christensen and Bower, 1996), with customer centric firms placing significant emphasis on effectively meeting such requirements (Kindström *et al.*, 2013).

Notwithstanding the preceding point, competitor oriented firms tends to be pro-active in collecting market-related information to gain market advantage (Im and Workman 2004), and maintaining that advantage requires the launching of innovative offerings (Matsuno *et al.*, 2002). Managing the risk of introducing innovative products requires significant willpower on the part of entrepreneurs to succeed (Balas *et al.*, 2012). Gathering requisite market intelligence data about competitors and information regarding customer preferences enables entrepreneurs to remain pro-active by assuming a calculated risk while launching a new product. Slater and Narver (1995) noted that a firm can fill the gap between customers’ needs and its offering only by diverting resources for successful innovations. Customer orientation significantly influences an organisation’s innovativeness and new product advantage (Zhou *et al.*, 2005). Competitor-oriented firms keep close vigilance over their competitors, compare their marketing initiatives with those of competitors promptly and attempt to comprehend short-term capabilities and long-term strategies. Moreover, perceiving their competitors as a frame of reference, competitor-oriented firms can diagnose their strengths and weaknesses. With a full idea of its own strengths and weaknesses as well as those of its competitors, a competitor-oriented firm can rely upon the information, by duplicating competitor’s strengths and applying them internally or by introducing new or innovative product in order to destroy competitor’s strength (Li and Calantone 1998). Drawing the aforementioned points together, market orientation is the key antecedent of entrepreneurial orientation and thus the following hypothesis are proposed:



*H1: Market orientation (i.e. customer orientation and competitor orientation) is an antecedent of entrepreneurial orientation.*

### **Consequences of Entrepreneurial Orientation**

Downstream of market orientation a firm's learning disposition and capacity are informed by the degree or extent to which it is entrepreneurially oriented (Real *et al.*, 2014). Innovative and pro-active entrepreneurs, generally, encourage employees to acquire new knowledge and skills, and utilise acquired knowledge for further improvement and development, which, in a traditional sense, can be deemed to be double-loop learning (e.g. Argyris, 1976; 1991). Entrepreneurs with high pro-activeness, risk-tolerant capability that are innovation-driven typically adopt an information sharing mind-set and learning culture within their firm (Sánchez, 2013). This facilitates the acquisition of new knowledge and the competency to maximize existing knowledge to enhance business performance (Fosfuri and Tribo, 2008). Sambrook and Roberts (2005) proposed that entrepreneurial orientation accompanied by knowledge intensive characteristics promotes organisational learning processes. Keh *et al.* (2007) and Sapienza *et al.* (2005) established that pro-active firms acquire, exploit and exchange knowledge more effectively. When examining a learning situation in the context of entrepreneurial orientation, entrepreneurially oriented firms should promote a mutual learning culture, across the various functions. Efforts to anticipate demand and aggressively position new products/services often results in enhanced performance (Ireland *et al.*, 2003). To find entrepreneurial opportunities, firms need to learn to search for, recognise and assimilate potentially valuable knowledge (Huber 1991). Firms that are more proactive, risk tolerant, and innovative have a culture of sharing information and learning and so they are able to develop knowledge capabilities and leverage opportunities faster than their rivals (Slater and Narver 1995). Therefore, our second hypothesis is proposed:

*H2: Organisational learning and business performance are the consequences of entrepreneurial orientation.*

### **Organisational Learning Mediating the Relationship between Entrepreneurial Orientation and Business Performance**

The existing entrepreneurial orientation and business performance literatures indicate that entrepreneurial orientation enhances business results when compared to less entrepreneurially oriented firms (Wiklund and Shepherd, 2005). Today's competitive market place is characterised by frequent radical change in products and shorter lifecycles, where there is uncertainty about potential profits, meaning firms are required to explore alternative avenues. The willingness and ability to assume a greater degree of risk, innovation and advance proactive steps are expected to deliver higher profitability and growth (Soininen *et al.*, 2011).

Entrepreneurially oriented firms generally seek new knowledge capability and utilize available resources that are underpinned by perpetual learning processes (Kreiser, 2011). A firm's entrepreneurial orientation facilitates an innovative and pro-active culture which promotes organisational learning (Dess *et al.*, 2003). Thus, entrepreneurial orientation has a positive effect on organisational learning (Liu *et al.*, 2002). A supportive learning environment is expected to yield positive changes in the day-to-day operations and improvement in strategic decision making, with the corollary of achieving improved business performance. Exploration of new avenues of market information enables businesses to assess their own position in the market to improve performance levels. Levinthal and March (1993) advocate the necessity of exploration and exploitation for continuous business success, given that engagement in the adequate exploitation of available resources ensures current viability, while continuous exploration guarantees future success.

However, Bhuian *et al.* (2005) and Tang *et al.* (2009) adopt the viewpoint that the relationship between entrepreneurial orientation and business performance is not linear and, instead, is an inverted U-shape; implying that there may be other variables that mediate or moderate the relationship. Prior research by Noble *et al.* (2002) established that a firm's learning mediates the relationship between entrepreneurial orientation and business performance. Harms (2013) asserts that mediators can elaborate the relationship between entrepreneurial orientation and business performance. Thus, this study posits that organisational learning mediates the relationship between entrepreneurial orientation and business performance; in view of this we present the following hypothesis.

*H3: The effects of entrepreneurial orientation on business performance are transmitted through organisational learning.*

In drawing the various discussions together, Figure 1 depicts our conceptual framework showing the relationships.

-----Insert Figure 1 about here -----

## **Research Methods**

### **Sample Selection and Context**

A cross-sectional survey approach was employed for data collection. Given the nature of the constructs with our study, we recognise that market orientation is considered to be a longitudinal construct (Naidoo, 2010), but within the literature cross-sectional research is accepted for measurement purposes (Augusto and Coelho, 2009). Here the research focus is owners/managers of S-SMEs in India. As an emergent economy underpinned by a strong manufacturing base, India's conditions are such that the findings are likely to find relevance in both regional and emergent economies with similar characteristics, such as those in South East

Asia. Due to this overarching, common characteristic the study's sample is a homogenous representation and appropriate unit of analysis for drawing conclusions.

Before completing the main study, a pilot study on a convenience basis among ten S-SMEs was completed. The purpose of the study was to ensure that there were no design issues with the survey instrument and to assess the level of participation. In evaluating this, the survey completion and interpretation were analysed, with our pilot testing revealing that no such issues emerged. Based on this, the study proceeded to the next stage.

For the main survey, a sample frame of S-SMEs from the District Industrial Center (DIC) was acquired. As the majority of the old industries were located in Industrial Area 'A' and 'B', the study confined its population to these two areas. At the point of data collection, there were 41,385 S-SMEs in the sample frame, ~3,000 of which were located in Industrial Area 'A' and 'B'. Arranging the list of ~3,000 industries in Industrial Area 'A' and 'B' in alphabetical order, the study employed a systematic sampling technique to contact potential respondents. Of the 211 owners/managers of these S-SMEs contacted, 204 participated in the study and 192 usable survey instruments were received. Table 1 illustrates the different types of manufacturer present within the sample.

-----Insert Table 1 about here-----

The survey was administered on a face-to-face basis, because a lack of culture of completing either postal or online surveys in India would have led to a low response rate; which are a feature of South Asian countries (Harzing, 2000). As part of the process, the survey instruments were translated into one of the many recognised local dialects. Research Assistants who were familiar with the subject matter and fluent in the local dialect administered the survey. The use of the Research Assistants ensured that the purpose of the survey, such as the

objectives, was clearly explained and to provide assurances regarding confidentiality and encourage participation.

## **Measures**

To begin, the relevant literature was reviewed to generate items pertaining to the dimensions of Market Orientation, Organisational Learning, Entrepreneurial Orientation and Business Performance. A structured measurement instrument was developed to gather the required information with multiple items employed for each measure to reduce measurement error. To improve validity, some items were repeated to judge the consciousness and active participation of respondents as well as to examine internal consistency and cross checking of the data.

*Market Orientation:* This construct refers to the approach adopted by an entrepreneurial firm to match the requirements of the market. The present study uses the conceptual framework proposed by Narver and Slater (1990) and includes two dimensions i.e. customer orientation and competitor orientation because these two are the important strategic orientations that influence competitive advantage (Zhou *et al.*, 2005; Slater and Narver 1994). Customer and competitor orientations are two primary means that firms employ to interact with the environment and these two dimensions are important for firms to interact with their environment (Day and Wensley 1988). Measuring market orientation, the study comprised ten items modified from Narver and Slater (1990), out of which six items pertained to customer orientation and the remaining four to competitor orientation. This specific study used second-order construct to confirm these dimensions.

*Organisational Learning:* This construct is the learning culture that prevails in an organisational to promote learning skills among personnel. The measure included two dimensions adapted from Garud and Nayyar (1994), Szulanski (1996), Jansen *et al.* (2005);

Smith *et al.* (2005), Marsh and Stock (2006) and Todorova and Durisin (2007). The first dimension was exploratory learning, which included recognition and assimilation consisting of nine items. The second dimension, namely exploitative learning, included transmutation and application, comprising eight items. The second-order construct was used to analyse organisational learning.

*Entrepreneurial Orientation:* The latent principle for this construct is strong entrepreneurial drive and concerted efforts made by an entrepreneur to enable a new breakthrough innovation, taking pro-active steps and understanding calculated risks in order to achieve the intended business results. To examine the level of entrepreneurial orientation, the study adopted a widely utilized instrument developed by Covin and Slevin (1989). This has become the de facto scale for entrepreneurial orientation used in research within the discipline including Lumpkin and Dess (1996), Busentiz and Barney (1997) and Wiklund and Shepard (2005). The study adopted three dimensions of entrepreneurial orientation, i.e. innovativeness, pro-activeness and risk-taking, which consisted of nine items, three for each dimension. In prior studies, Barringer and Bluedorn (1999); Kreiser *et al.* (2002) and Knight (1997), innovativeness, pro-activeness and risk-taking dimensions have been reported as possessing adequate levels of reliability and validity. The study used second-order constructs to capture entrepreneurial orientation. This second-order construct comprised three reflective first-order constructs of innovativeness, pro-activeness and risk-taking.

*Business Performance:* Business performance of small-scale enterprises can be measured by both subjective and objective measures (Murphy *et al.*, 1996). Therefore, to capture different aspects of small business performance, the study measured both subjective and objective performance, which consisted of items relating to revenue growth, market share, net profit, return on assets and customer satisfaction, adapted from Moorman and Rust (1999).

Taking our scale in its entirety, the use of a combination of existing and new items is an accepted approach, particularly where well-regarded items already exist (Netemeyer *et al.*, 2003). In addition, by using a range of items from differing sources, we were able to ensure the validity of our measurement instrument.

Our final instrument comprised 69 items, out of which 12 related to organisational demographics, nine to personal demographics, with the remaining items belonging to four major constructs of the study. To allow for the greatest degree of variance, a seven-point Likert scale was used with the scale ranging from ‘strongly disagree’ (1) to ‘strongly agree’ (7) for market orientation, organisational learning and entrepreneurial orientation. For measuring business performance, the study also used a seven-point scale, but in this instance, it ranged from ‘worst’ (1) to ‘best’ (7).

### **Control Variables**

In emerging regional and national economies such as India, the nature of a firm, its age, size, top management team, educational level and business experience of entrepreneurs have a strong influence on its performance and success. Thus, similar to Rothaermel and Deeds (2004) and Akgun *et al.*, (2007), the study controlled for a firm’s size and age because these two variables have a compelling influence on a firm’s innovativeness and performance. Calof (1993) posits that small firms generally confront greater resource constraints in comparison to larger firms. Further, firms tend to experience higher entrepreneurial orientation during the early stages of their life (Stanley, 2010; Zhao *et al.*, 2011). The study controlled for the nature of the industry in terms of technological intensiveness because the level of technology adoption will affect the degree of entrepreneurial and learning orientation of S-SMEs.

There are specific internal and external factors that influence a firm’s strategic capabilities irrespective of its entrepreneurial orientation or organisational learning level

(Teece, 2007). The other control variables are composition of a management team, educational level and business experience possessed by entrepreneurs. Together, these variables are likely to have a direct impact on an entrepreneur's efficiency. Educational level is measured by using an ordinal scale, and composition of the top management team was assessed through the number of key managerial personnel within a team. Business experience was measured as an entrepreneur's years of business experience.

### **Methods of Analysis**

The data were screened and normalcy verified. After establishing normalcy, the study was checked for common method variance in order to assess bias in the dataset. Employing Podsakoff *et al.* (2003) precedent, the study used three different techniques to analyze the common method variance and check for the existence of bias. Here, eight factors emerged with 68.32% of the variance explained, with the first factor accounting for 11.10%. Second, a CFA single-factor model was evaluated, in which all the manifest variables of the latent constructs were loaded onto a first-order CFA. The study exhibited a poorly fitting model (CMIN/df= 5.26; GFI= .51; AGFI= .45; NFI= .24; TLI= .22; CFI= .27; RMSEA= .14). Finally, the study determined the correlation matrix of the latent constructs and noted the highest value in the correlation matrix was 0.52 (Table 2), which is less than the threshold criteria of 0.90. Hence, the aggregation of the three results revealed that common method variance did not exist in the present study.

A CFA was performed to assess fitness, reliability and validity of the latent constructs. Data reliability was evaluated utilizing Cronbach's Alpha. To improve scale consistency, the item-to-item correlation was observed to determine whether each item correlated positively with other items (Kennedy *et al.*, 2002) (Table 3). The study further tested for composite



reliability (CR) and here, the value of CR of all the latent constructs was above .90, which indicated internal consistency of the data. The dimension-wise CR is shown in Table 3.

Convergent validity was established through the factor loading and average variance extracted, and was established because the majority of factor loadings and average variance extracted were either close to or above .50 (Table 3 and 4). The study recognises for the constructs ‘innovativeness’, taken from Covin and Slevin (1989) and ‘customer orientation’ adopted from Naver and Slater (1990) that the Cronbach Alphas are marginally below the ‘magical’ 0.7 cut-off. In defending the study’s position, we draw attention to Diamantopoulos (2005, pp. 453-454) who makes the specific point that “...has led to some absurd practices such as the mechanistic application of exploratory factor analysis models to identify the dimensionality of constructs or the expectation of journal referees that unless the almost ‘magical’ 0.70 level is reached by coefficient alpha, a multi-item measure ‘cannot be any good’. In the process, theory goes out of the window”. For this study, their inclusion is justified as firstly, the two studies from which the items were identified have been cited approximately 15,000 times as indicated by Google Scholar and are therefore representing a robust evidence source and precedent. Secondly, overall the study reports statistics that are statistically robust, and therefore, theoretically there are valid reasons for their inclusion.

Table 5 shows that each explained variance estimated on the diagonal was greater than the corresponding inter-factor squared correlation estimate below the diagonal. Discriminant validity was statistically demonstrated and the results of the test depicted that for all the pairs of constructs, the chi-square value was significant at 0.05 level ( $\chi^2 > 3.84$ ,  $df = 1$ ), thereby indicating discriminant validity of constructs in all possible pairs (Ahire *et al.*, 1996). Taken together, discriminant validity was established, implying that the major constructs are unique.

----- Insert Table 3, 4 and 5 about here -----

The results of measurement models revealed that the goodness-of-fit (GFI), adjusted goodness-of-fit (AGFI), normed fit index (NFI), Tucker-Lewis index (TLI) and comparative fit index (CFI) exceeded the recommended value of .90, and chi-square statistics are less than the recommended 5.0 level (Table 6).

----- Insert Table 6 about here-----

Following the CFA, the structural analysis (SEM) was conducted using AMOS to assess fitness of the structural model (Table 6). As a consequence, the data were analyzed and hypotheses tested, namely the antecedents of entrepreneurial orientation; the mediation of organisational learning in the entrepreneurial orientation–business performance link; and, the impact of organisational learning on business performance.

## **Results and Discussion**

After applying CFA, the indicators predict a good model fit in terms of CMIN/df, GFI, AGFI, NFI, TLI, CFI and RMSEA (Table 6). Adopting Baron and Kenny's (1986) mediation procedure, the study analysed the mediation of organisational learning in the entrepreneurial orientation–business performance link. The impact of entrepreneurial orientation on business performance ( $\beta=.28$ ;  $p<.05$ ) and the relationship of entrepreneurial orientation with organisational learning are both positive and significant ( $\beta=.33$ ;  $p<.05$ ). Furthermore, the impact of a mediator (organisational learning) on a dependent variable (business performance) is also significant ( $\beta=.16$ ;  $p<.05$ ). After un-constraining each of the paths, the mediation results demonstrate that the relationship between entrepreneurial orientation and business performance becomes weak but remains significant ( $\beta=.25$ ;  $p<.05$ ). Thus, there is a partial

mediation of organisational learning between entrepreneurial orientation and business performance (Figure 2, Table 6).

-----Insert Figure 2 about here -----

The analysis confirms that only competitor orientation is an antecedent of entrepreneurial orientation in the context of S-SMEs in an emerging economy ( $\beta=.17$ ;  $p<.05$ ), indicating that **H1** stands partially supported. Thus, the study identifies that firms with greater competitor orientation tend to be highly entrepreneurially oriented. This result is supported by Dev *et al.* (2009) found competitor orientation works more effectively in emerging economies, where resources are scarce. Gupta and Batra (2016) noted that EO has an overall positive effect on firm performance in the emerging economy of India. Moreover, Zhou *et al.* (2007) research signals that competitor orientation provides a greater prediction for market orientation and reports that firms tend to develop competitor orientation as they perceive their customers to be price sensitive.

Organisational learning ( $\beta=.33$ ;  $p<.05$ ) and business performance ( $\beta=.28$ ;  $p<.05$ ) are the consequences of entrepreneurial orientation, which supports **H2**. This result is supported by Liu *et al.* (2002), whereby entrepreneurial orientation is positively related to organisational learning and also leads to improved business performance (Rauch *et al.*, 2009). Wang (2008) reported that entrepreneurial firms promote learning through exploration and experimentation. Finally, organisational learning partially mediates the relationship between entrepreneurial orientation and business performance, thereby partially supporting **H3**. Hence, detailed analysis of the results shall help us in dwelling with the dynamics of relationships between entrepreneurial orientation, organisational learning and business performance.

As can be seen from the model, competitor orientation (a component of market orientation) is a true antecedent of entrepreneurial orientation, while organisational learning

and business performance are the consequences of entrepreneurial orientation, but customer orientation (another component of market orientation) does not have an antecedent role in entrepreneurial orientation. Thus, highly competitor-oriented S-SMEs have greater entrepreneurial orientation. Detailed analysis of the results reveal that market orientation lays positive and significant impact on Innovativeness ( $\beta=.16$ ;  $p=.028$ ) and Proactiveness ( $\beta=.13$ ;  $p=.07$ ) while its impact on Risk-taking is non-significant ( $\beta=.013$ ;  $p=.858$ ). The effects of entrepreneurial orientation on organisational learning are significant (Explorative learning:  $\beta=.26$ ;  $p=.00$ ; Exploitative learning:  $\beta=.24$ ;  $p=.00$ ). Among three dimensions of entrepreneurial orientation, proactiveness influences organisational learning greatly ( $\beta=.18$ ;  $p=.011$ ) than Risk-taking ( $\beta=.13$ ;  $p=.070$ ). Finally, only the impact of exploitative learning is significant on business performance ( $\beta=.183$ ;  $p=.010$ ).

In a liberalised regional economy such as India, competitive spirit is the sole strength among S-SME firms that enables them to survive and achieve speedy growth rates amid challenges posed by multi-national corporations. In resource-constrained economies, competitor orientation has proved to be a more effective way for businesses to strengthen their performance, rather than customer orientation, which finds greater support in highly developed economies (Dev *et al.*, 2009).

There seems to be growing unanimity regarding the effect of EO on superior firm performance is contingent upon the circumstances in which firm is operating (Lechner and Gudmundsson, 2014) as a result there is a dire requirement to explore various contingencies of the EO and firm performance relationship (Anderson and Eshima, 2013). Gupta and Batra (2015) examined linkages between EO and business performance relationships amongst Indian SMEs and concluded with the strong positive relationship between EO and business performance.

At a regional level for emergent markets, the study provides answers to the following three key questions. First, what are the factors that prompt entrepreneurial orientation to achieve superior business performance, i.e. the antecedents of entrepreneurial orientation? The results reveal that competitor orientation is an antecedent of entrepreneurial orientation that leads to an S-SME's business performance. Second, what is the outcome of entrepreneurial orientation, i.e. the consequences of entrepreneurial orientation? The study reveals that organisational learning and business performance are the corollary of entrepreneurial orientation. Third, there was the important examination of whether organisational learning mediates the relationship between entrepreneurial orientation and business performance? The findings note that the effects of entrepreneurial orientation on business performance are, in part, mediated by organisational learning.

## **Conclusions**

This study enhances the existing regional S-SME literature by identifying factors contributing to entrepreneurial orientation and its repercussions on business performance. For S-SMEs it adds credence to the compelling role played by organisational learning in mediating the link between entrepreneurial orientation and business performance, which may encourage owners to dedicate more time and greater resources toward creating and maintaining a conducive learning environment. The results will support entrepreneurs in acknowledging the importance of competitor orientation during the emergence and development of entrepreneurial orientation, specifically in emerging economies (Dev *et al.*, 2009). Meta-analysis conducted by Rauch *et al.* (2009) reported weak relationships between entrepreneurial orientation and business performance and posited the requirement to investigate other factors (e.g. internal variables) that influences the size of entrepreneurial orientation-performance relationship. Thus, Wang (2008) reported that entrepreneurial firms promote learning through exploration

and experimentation (Hamel & Prahalad, 1991; Slater & Narver, 1995) and to reap the benefits of entrepreneurial efforts, a firm must be committed to learning.

This study found that S-SMEs are entrepreneurially oriented, primarily due to their competitive outlook, and are less inclined towards understanding customer needs. To become increasingly innovative, S-SMEs should consider the explicit and implicit needs of their customers (Keh *et al.*, 2007), so that in addition to remaining pro-active, they also accrue the benefits of being the first to introduce changes to existing products, or introduce new products. However, innovation and new development needs to be carefully considered as the success levels associated with innovation can be questionable (Parida *et al.*, 2012). The findings also draw attention to the insignificant relationship between customer orientation and entrepreneurial orientation. This could be attributable to the lack of effort on the part of S-SMEs to understand and fulfill the requirements of their target customers. Another probable cause may be attributed to the types of customers being served by these S-SMEs, with a diminishing return from that customer body, although a curvilinear relationship can be achieved if market conditions are favorable (Lowik *et al.*, 2012). Hence, a suitable balance between customer and competitor orientation shall ensure an optimal level of entrepreneurial orientation (Baker and Sinkula, 2009).

Transformational processes on the part of leaders inform organisational learning, thus, stakeholders contribute their experiences, both individually and collectively, to achieve organisational goals (García-Morales *et al.*, 2012). The organisation's ability to learn, acquire knowledge and innovate has emerged as a compelling factor influencing organisational performance. However, the S-SMEs within our study are more focused on exploring the environment, observing market trends and technologies, and gathering industrial information. They are generally found to be wanting at exploiting the relevant acquired knowledge and

technical expertise, primarily because they do not analyze and interpret changing market conditions. This shortcoming may be a consequence of a lack of exploiting resources and a lack of intensity to reap the benefits (Wright *et al.*, 2007). The study conducted by Lichtenthaler (2009) supports the view that learning processes have complementary positive effects on profiting from external knowledge, thus an increase in one learning process may not have a positive effect independent of the other processes. Firms need the ability to assimilate, maintain and apply external knowledge, and an excessive focus on one learning process is likely to have negative consequences.

The following limitations are recognised. First, other strategic orientations, including technology, production and selling orientation, have not been included. Second, some other constructs that have a potentially significant relationship with market and entrepreneurial orientation, such as organisational capabilities, innovation and social context, have not been considered. Third, being industry-sector specific, this study does not consider alternative sectors which also may play a role in economic development, such as the services sector. An unavoidable pitfall of cross-sectional data is the time horizon while a longitudinal panel based data would allow performance changes to be tracked allowing future researchers to gain insight into the impact of modifying behavior. Further research is required to explore these issues in greater depth. However, this study has offered novel insights by identifying factors in Indian S-SMEs that contribute to entrepreneurial orientation and its repercussions on business performance.

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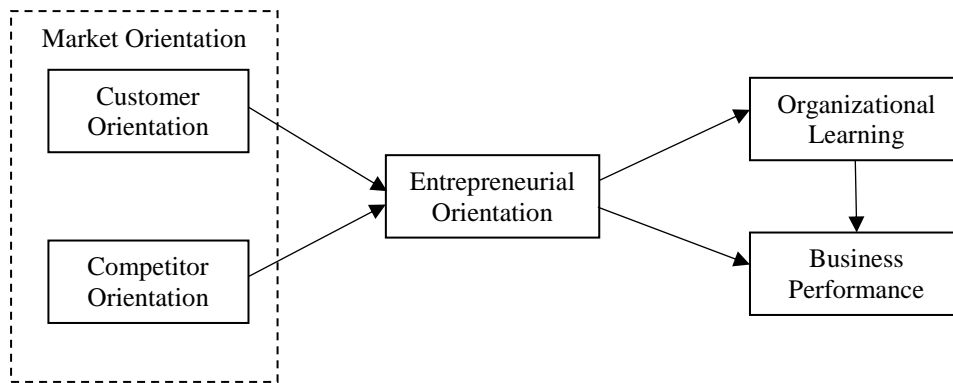
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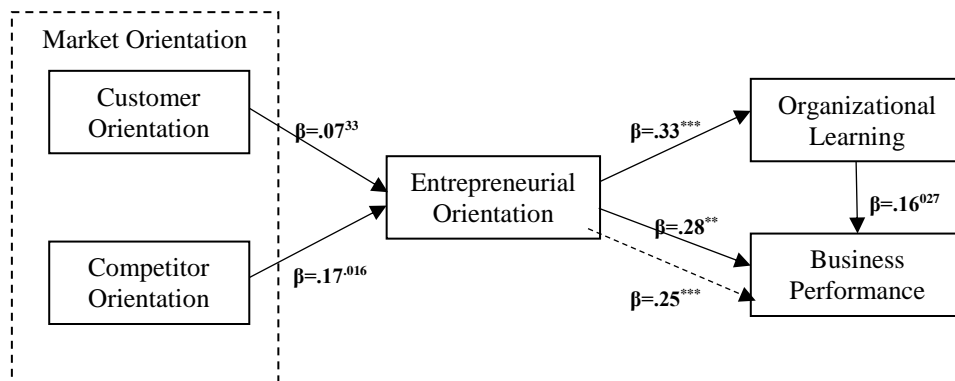


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**Figure 1: Conceptual Framework**



**Figure 2: Structural Model**



**Table 1: Profile of Sampled Firms**

Manufacturing Industries	No. of Firms	Percentage
1. Agriculture equipment and oil expellers	42	21.88%
2. Auto and cycle parts	52	27.08%
3. Casting	12	6.25%
4. Hosiery and textiles	60	31.25%
5. Iron and steel	14	7.29%
6. Sewing machines	12	6.25%
<b>Total</b>	<b>192</b>	<b>100%</b>

**Table 2: Correlation Matrix**

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10
Nature of industry	2.16	0.92										
Firm's age	30.83	17.27	-.10									
Firm's size	16.01	13.78	-.29**	.20**								
Top management team	1.81	1.19	-.11	.14**	.36**							
Educational level	4.18	0.80	.19**	-.03	-.28**	-.34**						
Business experience	20.33	11.58	.17*	.13	-.10	-.24**	.44**					
Market orientation	5.35	0.69	-.28**	-.06	.15*	-.06	-.15*	-.14*				
Entrepreneurial orientation	3.32	1.32	-.21**	.03	.11	.09	-.06	.02	.11			
Organisational learning	5.41	0.53	-.20**	.02	.09	-.04	-.16*	.07	.23**	.30**		
Subjective performance	17.43	8.34	-.09	-.05	.01	-.02	-.01	.03	.31**	.18*	.52**	

n = 192; \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001

**Table 3: Descriptive Statistics**

<b>Construct</b>	<b>Mean</b>	<b>SD</b>	<b>β</b>	<b>t-Value</b>
<b>1. ENTREPRENEURIAL ORIENTATION</b>				
<b>(a) Innovativeness (Covin and Slevin, 1989)</b>				
Launched new product line.	4.62	1.71	0.63	4.14
Radical changes in product line.	3.70	2.46	0.68	3.32
<b>(b) Risk-taking (Covin and Slevin, 1989)</b>				
High-risk appetite.	2.53	1.79	0.65	9.10
Goal oriented.	2.81	1.89	0.94	2.47
Aggressive exploitation of opportunities.	2.64	1.86	0.87	5.26
<b>(c) Pro-activeness (Covin and Slevin, 1989)</b>				
Imitativeness in action.	4.51	1.98	0.52	9.55
Initiative oriented.	3.07	2.15	0.96	1.29
New product and technology introducer.	3.01	2.16	0.91	3.89
<b>2. MARKET ORIENTATION</b>				
<b>(a) Customer Orientation (Narver and Slater, 1990)</b>				
Monitor level of commitment and orientation to serving customers' needs.	5.44	1.37	0.44	8.77
Strategy for competitive advantage is based on understanding of customers' needs.	6.14	0.86	0.86	1.71
Business strategies are driven by beliefs about how the firm can create greater value for customers.	6.21	0.73	0.62	5.99
<b>(b) Competitor Orientation (Narver and Slater, 1990)</b>				
Salespeople share information within business concerning competitors' strategies.	4.63	1.25	0.59	8.55
Respond to competitive actions that threaten.	4.79	1.38	0.74	6.92
Target customers and customer groups where firm can develop a competitive advantage.	4.78	1.21	0.74	6.94

Top management team regularly discusses competitors' strengths and strategies.	5.36	1.22	0.77	6.36
<b>3. ORGANISATIONAL LEARNING</b>				
<b>(a) Exploratory Learning (Arbussa and Coenders, 2007; Jansen, van den Bosch and Volberda, 2005; Szulanski, 1996)</b>				
We frequently scan the environment for new ideas and new technologies.	6.12	0.98	0.81	7.39
We thoroughly observe market trends and technological trends.	5.86	1.18	0.87	5.84
We observe in detail external sources of new technologies.	6.06	1.09	0.84	6.71
We have information on the state-of-the-art external technologies.	6.15	0.97	0.57	9.21
We frequently acquire ideas and technologies from external sources.	5.61	1.24	0.53	9.30
<b>(b) Exploitative Learning (Jansen, van den Bosch and Volberda, 2005; Smith, Collins and Clark, 2005; Szulanski, 1996; Todorova and Durisin, 2007)</b>				
We are proficient in transforming technological knowledge and market knowledge into new products.	5.14	.96	.72	8.19
We regularly match new technologies with ideas for new products.	4.86	1.01	.75	7.88
We quickly recognise the usefulness of new technological knowledge for existing knowledge.	5.04	.92	.74	8.05
We regularly apply technologies in new products.	4.95	1.17	.68	8.54
We constantly consider how to better exploit technologies.	4.92	1.01	.69	8.46
We easily implement technologies in new products.	5.12	.95	.70	8.37
<b>4. BUSINESS PERFORMANCE (Moorman and Rust, 1999)</b>				
Revenue growth in the last three years.	4.54	.71	.72	8.62
Market share growth in the last three years.	4.62	.70	.75	8.41
Net profit in the last three years.	4.43	.66	.88	5.79
Return on Assets(ROA) in the last three years.	4.26	.62	.78	8.41
Customer satisfaction.	4.42	.67	.80	7.77

Abbreviations used: Standard deviation (SD); Average Variance Extracted (AVE); Beta Value ( $\beta$ ); Composite Reliability (CR) and

**Table 4: Reliability and Validity of Latent Constructs**

Constructs	AVE	Composite Reliability	Cronbach's Alpha
Entrepreneurial Orientation	.64	.94	.79
Market Orientation	.48	.97	.70
Organisational Learning	.47	.99	.86
Business Performance	.63	.99	.89

Abbreviations used: Average Variance Extracted (AVE)

**Table 5: Discriminant Validity of Latent Constructs**

AVE	EO	MO	OLBP
Entrepreneurial Orientation	<b>(0.64)</b>		
Market Orientation		0.01 <b>(0.48)</b>	
Organisational Learning	0.09	0.05	<b>(0.47)</b>
Business Performance	0.07	0.01	0.02 <b>(0.63)</b>

Abbreviations used: Entrepreneurial Orientation (EO); Market Orientation (MO); Organisational Learning (OL) and Business Performance (BP)

**Table 6: Results of Measurement Models and Structural Model**

Model	CMIN/df	$\chi^2$	GFI	AGFI	CFI	NFI	TLI	RMSEA
1. Entrepreneurial Orientation	24.45/17	1.44	.97	.94	.99	.97	.98	.04
2. Market Orientation	14.95/13	1.15	.98	.95	.99	.96	.99	.02
3. Organizational Learning	45.58/28	1.63	.85	.95	.95	.88	.94	.05
4. Business Performance	12.28/5	2.46	.98	.92	.99	.98	.97	.08
5. Alternative Models								
Antecedent of EO	3.95/1	3.95	.98	.91	.89	.87	.87	.12
Consequences of EO	1.74/1	1.74	.99	.96	.97	.93	.91	.06
Mediation of OL in EO→BP	8.34/5	1.67	.98	.94	.97	.94	.92	.05
6. Structural Model	8.47/7	1.21	.98	.95	.98	.92	.96	.03

Abbreviations used: Entrepreneurial Orientation (EO); Organizational Learning (OL) and Business Performance (BP)