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Impact of Entrepreneurial Orientation, Access to Finance and Strategic Flexibility on SMEs Performance

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Abstract

The sports goods manufacturing sector of Pakistan is comprised of 10,400 small and medium enterprises and annually contributes 6% to the country's GDP. Despite its prominent role in promoting economic growth research on the sports goods manufacturing sector of Pakistan remains limited. This research analyzed the effect of entrepreneurial orientation, access to finance, and strategic flexibility on SMEs performance in the sports goods manufacturing sector of Sialkot, Pakistan. 400 SMEs were randomly selected out of 10,400 sports manufacturing SMEs in Sialkot, Pakistan. A pen and paper survey method was utilized to collect data from SMEs managers. Out of 400 SMEs contacted 372 agreed to participate in research. 372 usable questionnaires were received back. The results show that entrepreneurial orientation and access to finance have a significant positive effect on SMEs performance. Whereas, strategic flexibility was found to be insignificant in affecting SMEs performance.

Keywords: SMEs, strategic flexibility, access to finance, entrepreneurial orientation.

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1. Introduction

The term Small to a medium sized enterprise is defined differently in many countries based on different criteria which mostly involve the number of employees, sales turnover, and value of assets of a firm (Cunningham & Rowley, 2008). Small to medium-sized enterprises (SMEs) have been recognized by researchers and economists as one of the major drivers of economic growth (Eriksson, Fjeldstad, & Jonsson, 2017). SMEs significantly contribute to a country's economic growth (Beck, Demirguc-Kunt, & Levine, 2005; Carbó-Valverde, Rodríguez-Fernández, & Udell, 2016).

There exists multiple criteria for defining SMEs in Pakistan as different institutions define SMEs differently on varying criteria (Dar, Ahmed, & Raziq, 2017). However, there exists a general consensus in Pakistan that characterizes SMEs as “any business which has up to 250 working employees, paid-up capital up to PKR 25 million and annual sales up to PKR 250 million” (Khan, Awang, & Zulkifli, 2013). As per “Small and Medium Enterprises Development Authority” (SMEDA <https://smeda.org/>) of Pakistan 90% of enterprises in Pakistan are characterized as SME, 80% of non-agriculture labor is employed by SMEs and SMEs contribute 40% to the annual GDP of the country. The study of SMEs not only provides insights for SME managers but for policymakers as well which is the crucial aspect of SME research.

The sports goods manufacturing sector of Sialkot, Pakistan comprises of 10,400 SMEs and is significantly contributing to the total exports annually (Asad, Rizwan, Shah, & Munir, 2018). The sports goods industry of Pakistan exports up to 80% of its production of sports goods to foreign countries around the world including many developed countries across Europe (Imran, Hamid, & Aziz, 2018). Pakistan's sports goods industry is internationally recognized for its high-quality products and fulfillment of international standards along with customers' demands. SMEs in the sports sector of Pakistan annually contributes 6% to the GDP of the country (Imran, Hamid, & Aziz, 2018).

Due to the significant role of SMEs in economic development and its benefits to an economy such as increasing national income governments around the world provide support to SMEs in their

countries by implementing policies that promote the formation and operations of SMEs in a country (Knight & Liesch, 2016). SMEs performance plays a significant role in the advancement of the emerging economy (Senik, Isa, Sham, & Ayob, 2014). SMEs annual contribution to Pakistan's GDP remarkably illustrates the vital role of SMEs in promoting economic growth. In order to increase its performance SMEs depend on various factors other than resources and finance. Therefore, research is needed to analyze those factors which might be positively associated with SMEs performance in Pakistan.

Numerous research studies carried out in developed countries have analyzed the effect of entrepreneurial characteristics developed by SMEs on its financial and market performance (e.g. see Gupta & Batra, 2016; Avlonitis & Salavou, 2007; Keh, Nguyen, & Ng, 2007; Kraus, Rigtering, Hughes, & Hosman, 2012; Swierczek & Ha, 2003; Brouthers, Nakos, & Dimitratos, 2015). However, the literature fails to focus on SMEs performance as a result of strategic flexibility adopted by firms. Therefore, a need exists to bridge this gap and test the significance of strategic flexibility in affecting SMEs performance. Moreover, the construct of access to finance by SMEs has been rarely studied in order to understand SMEs performance. The literature on SMEs performance in Pakistan lacks the focus of researchers on these key variables which lack the attention of researchers in developed countries as well. This research aims to bridge this gap in the study of SMEs performance in Pakistan by analyzing the role of strategic flexibility, entrepreneurial orientation and access to finance in SMEs performance in Pakistan. Due to its significant contribution to the GDP of the country and worldwide recognition this research aims to analyze SME performance in the sports goods manufacturing sector of Pakistan. This research would produce valuable insights for SMEs managers and policymakers in order to support SMEs in achieving high performance.

2. Theoretical Framework

Resource based view (RBV) originated from the discipline of strategic management as a result of the interest of researchers in understanding about the reasons behind the superior performance of some firms as opposed to rest of the firms in an industry (Kellermanns, Walter, Crook, Kemmerer, & Narayanan, 2016).

According to Barney (1991) those firms which develop unique and valuable resources also known as “strategic resources” outperform the others lacking these resources. The concept of firm performance has its roots in resource-based theory, which implies that a firm strives to perform better in the market to develop and accumulate resources to successfully carry out business activities in the long run (Wiklund & Shepherd, 2005). If the efforts of a firm in developing and accumulating strategic resources are successful then it helps a firm in gaining competitive advantage (Barney, 2001). Entrepreneurial orientation and strategic flexibility are largely recognized as one of the unique resources a firm develops to gain competitive advantage (Ayuso & Navarrete-Báez, 2018). Moreover, researchers have managed to expand RBV to many different concepts other than firm performance and entrepreneurial orientation is one of those concepts for which RBV has been given leverage to a great extent (Kellermanns et al., 2016). Strategic flexibility involves the flexible utilization of strategic resources. In the same vein, literature explains the concept of strategic flexibility in the light of RBV. Therefore, this research develops its theoretical framework in the following pages relying on resource-based theory.

2.1 SMEs Performance

There is no one definition exists for the term “performance”. The concept of performance entails the means by which a firm creates value for its stakeholders. The key concept attached to the performance of a firm is the manner in which a firm utilizes its resources to generate value for the stakeholders. The literature identifies two critical measures of SMEs performance (a) the financial measure such as profitability ratios of a firm, and (b) the non-monetary evaluation of performance based on perceptions of managers about the firm’s progress on achieving the predetermined targets (Minai & Lucky, 2011). This research analyzes performance in a non-monetary context.

The performance of a firm reflects its ability to successfully carry out business in a competitive marketplace. Levels of productivity, business operations, product development, efficiency in production, and human capital are some of the key factors that help a firm in deciding the measures for the evaluation of business performance (Rogo, Shariff, & Hafeez, 2017). Another crucial

aspect of hierarchical performance lies in the context of finance which includes the sales expansion and overall sales revenue (Kamyabi & Devi, 2011). The performance of SMEs can also be evaluated by estimating their level of growth and profit generation (Shehu & Mahmood, 2014). The entrepreneurial ability possessed by a firm based on which the opportunities are evaluated and capitalized by a firm is also considered as one of the indicators of organizational performance (Eggers, Kraus, Hughes, Laraway, & Snyckerski, 2013).

2.2 Entrepreneurial Orientation (EO) and SMEs Performance

Traditionally SMEs exhibit individual leadership styles (Child & Hsieh, 2014). Entrepreneurs are the primary source of leadership in SMEs. Entrepreneurial orientation in SMEs results in better financial performance and growth (Wiklund & Shepherd, 2005; Rauch, Wiklund, Lumpkin, & Frese, 2009).

Entrepreneurship is defined as “the process of discovering resources and opportunities and creating value by bringing together a unique package of resources to exploit an opportunity” (Shane & Venkataraman, 2000; Schindehutte, Morris, & Kocak, 2008). Entrepreneurial activities also known as entrepreneurial orientation (EO) in managing and running a business has been a subject of research for the past few decades because of its significant benefits such as gaining competitive advantage and better financial performance (Brouthers, Nakos, & Dimitratos, 2015). EO is recognized as a risk-taking and innovative decision-making style which results in a business’s entry in the new or existing market with new or existing products or services (Avlonitis & Salavou, 2007). Researchers have associated EO with the success and growth of a business in the long run (Wiklund, 1999; Eggers, Kraus, Hughes, Laraway, & Snyckerski, 2013).

2.3 Dimensions of EO

Miller (1983) proposed three dimensions of entrepreneurial orientation namely; a) innovativeness, b) risk-taking, and c) proactiveness. Miller’s (1983) work has been adopted widely by management researchers for the conceptualization of EO as a multidimensional construct. Covin and Slevin (1989, 1998) operationalized EO based on Miller’s (1983) dimensions. Majority

of researchers agree on the operationalization of EO as three dimensional construct as proposed by Miller (1983). Later on Perez-Luno, Wiklund, and Cabreraa (2011) refined the dimension of innovativeness and suggested that Innovation generation+Adaptation is an integral dimension of EO. Perez-Luno, Wiklund, and Cabreraa (2011) define Innovation generation as “the situations where a firm internally generates a product, process or technology that was previously unknown to the market in which the firm operates.” And they define innovation adaptation as “Organizational assimilation of knowledge and technologies that have been developed elsewhere and that are new to the organization only.” The authors further point out that both the innovation generation and innovation adaptation are two means available to firm in purely becoming innovative.

Jiang, Liu, Fey, and Jiang (2018) surveyed 251 Chinese firms and found that the firms with higher EO exhibit superior firm performance. Kraus, Rigtering, Hughes, and Hosman (2012) surveyed 167 Dutch SMEs and found that innovative SMEs perform better in times of economic crises. Rauch, Wiklund, Lumpkin, and Frese (2009) discovered that the relationship between EO and business performance is not affected by different cultural contexts in different continents.

Nascent empirical literature shows that EO is positively related to the growth and performance of SMEs (Kraus, Rigtering, Hughes, & Hosman, 2012; Rauch, Wiklund, Lumpkin, & Frese, 2009). From a sample of 350 SMEs operating in the retail sector in North Cyprus Altinay, Madanoglu, De Vita, Arasli, and Ekinci (2016) found a positive relationship between EO and Sales growth in SMEs. Ayuso and Navarrete-Báez (2018) surveyed SMEs in Mexico and Spain to analyze the link between EO in SMEs and sustainable development and found these two constructs are positively associated with each other. Moreover, entrepreneurial orientation has also found to be positively contributing to SMEs performance in times of economic crisis. Following the above evidence we propose our first three hypotheses as follow:

H₁: Innovation generation+ Adaptation positively affects SME performance.

H₂: Risk-taking positively affects SME performance.

H₃: Pro-activeness positively affects SME performance.

2.4 Access to Finance and SME Performance

One of the major hurdles faced by SMEs growth is the difficulty in having access to finance such as external finance and credit financing (Beck & Demirguc-Kunt, 2006). Since 2008 the global financial crisis in 2008 SMEs access to finance has become difficult (Jones-Evans, 2015). Moreover, access to finance is extremely difficult for those firms which undergo innovative and entrepreneurial decisions (Lee, Sameen, & Cowling, 2015).

Lack of access to finance is recognized by researchers as the major growth constraint faced by SMEs (Motta, 2018). SMEs access to finance determines the execution of its innovative and entrepreneurial decisions (Jones-Evans, 2015). Hussain, Salia, and Karim (2018) identify SMEs access to finance as one of the determinants of SMEs growth in the market. The authors further alleviate the importance of access to finance for SMEs and propose that financial literacy among entrepreneurs is very critical for understanding the importance of access to finance for SMEs sustainability. Easy access to finance for SMEs means ease in the availability of financial resources when needed which facilitates SMEs in enhancing its performance.

In order to study the relationship between access to finance and firm growth Fowowe (2017) analyzed the World Bank's enterprise data of 10,888 SMEs in 30 African countries. Fowowe (2017) operationalized access to finance using objective and subjective measures: including a ranking of access to finance as subjective measure and a dummy variable for having/not having financial constraint as an objective measure. Fowowe (2017) concluded that difficulty in access to finance negatively affects a firm's growth. Easy access to finance provides SMEs to undergo an expansion of business activities and increase firm performance by investing in product development therefore easy access to finance helps SMEs in enhancing their financial performance as well as market performance. In light of this discussion we propose our fourth hypothesis as follows:

H₄: Access to finance positively affects SME performance.

2.5 Strategic Flexibility and SME Performance

Strategic flexibility is defined as “an ability of a firm to proactively or reactively respond to business opportunities and threats posed by changes in economic and political environments” (Grewal & Tansuhaj, 2001). Strategic flexibility is achieved by the flexible use of resources and the reconfiguration of a firm’s process (Kamasak, Yozgat, & Yavuz, 2017). The changing market dynamics and uncertainty in the new competitive landscape of business has shifted the focus of firms to the adoption of flexibility in managing its resources strategically in order to gain sustainable competitive advantage (Hitt, Keats, & DeMarie, 1998). Aaker and Mascarenhas (1984) emphasize that the attainment of strategic flexibility acts as a valuable asset for a firm to succeed in a highly competitive business environment. Strategic flexibility allows a firm to manage uncertainty more efficiently (Aaker & Mascarenhas, 1984). Many researchers suggest that it is imperative for a firm to acquire strategic flexibility in order to operate efficiently in the new and competitive markets (Chen, Wang, Nevo, Benitez, & Kou, 2017).

Xiu, Liang, Chen, and Xu (2017) analyzed the relationship between firm performance and strategic flexibility using a sample of 113 Chinese SMEs and found a significant positive relationship between strategic flexibility and firm performance. Greer, Carr, and Hipp (2016) collected survey data from 136 funders of SMEs in the US and found a positive relationship between strategic flexibility of human resource in SMEs and firm performance. Chan, Ngai, and Moon (2017) surveyed 141 SMEs in the garment industry of Hong Kong and found that strategic flexibility and manufacturing flexibility of SMEs in the garment industry enhances the supply chain agility of a firm which in turn significantly affects the financial and market performance of SMEs. Adopting strategic flexibility enables SMEs to outperform in competitive markets.

H₅: Strategic flexibility positively affects SME performance.

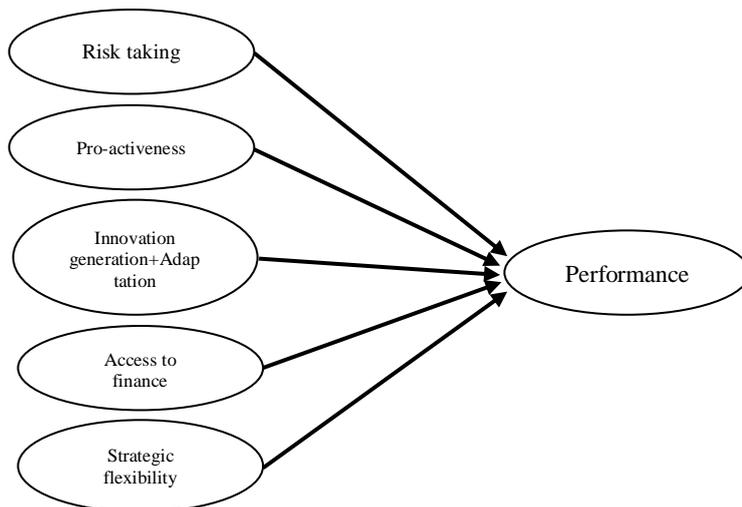


Fig. 1: Theoretical Framework

2.6 Summary of Hypotheses of the study

Keeping in view the above discussed theoretical and empirical literature this research formulates following hypotheses:

H₁: Innovation generation + Adaptation positively affects SME performance.

H₂: Risk taking positively affects SME performance.

H₃: Pro-activeness positively affects SME performance.

H₄: Access to finance positively affects SME performance.

H₅: Strategic flexibility positively affects SME performance.

3. Methodology

To test the proposed hypotheses, this research adopted a quantitative research methodology. A pen and paper survey method was utilized to collect data. According to Hair, Ringle, and Sarstedt (2011) sample size should be large enough for data collection to have at least 5 responses per item of the survey questionnaire. The total number of items in the survey questionnaire of this research was 32. According to Hair, Ringle, and Sarstedt's (2011) rule sample size of this research should not be less than 160. This research employed a simple random sampling method to select 400 SMEs out of 10,400 sports manufacturing SMEs in Sialkot, Pakistan. The sample size of this research is larger than the sufficient

size of 160 as per Hair, Ringle, and Sarstedt's (2011) criteria. Out of 400 SMEs contacted 372 agreed to participate in research. 372 questionnaires were distributed to SME managers, out of which 345 usable questionnaires were received back, with a response rate of 93%. Table 1 shows the descriptive statistics of variables.

Table 1: Descriptive Statistics

	Mean	Standard Deviation
Access to Finance	2.27	0.05
Pro-activeness	3.62	0.02
Innovation generation+Adaptation	3.43	0.02
Risk Taking	2.19	0.04
Strategic Flexibility	3.02	0.05
Performance	3.14	0.05

3.1 Measurement of Constructs

The survey questionnaire measured the constructs by adopting well-developed scales in the literature. EO was measured using the tridimensional 11 items scale developed by Pérez-Luño, Wiklund, and Cabreraa (2011). Access to finance was operationalized using an 8-items scale developed by Ekpe, Mat, and Razak (2011). Strategic flexibility was operationalized using a 5-items scale developed by Grewal and Tansuhaj (2001). Firm performance was measured using on 8-items self-perceived performance rating scale developed by Sarapaivanich and Kotey (2006) and adopted by Kraus, Rigtering, Hughes, and Hosman (2012). Responses were measured on a 5-points Likert scale of agreeableness and importance.

3.2 Validity and Reliability Analysis

Exploratory factor analysis (EFA) was carried out on data using SPSS 23.0. EFA produced significant value for Bartlett's test of sphericity (Chi square= 156, p =.02) Items with factor loadings greater than 0.4 were retained in the further statistical analysis of data. Table 1 depicts the factor loadings of items. The reliability and validity of latent variables were then measured using the criteria developed by Fornell and Larcker (1981) based on the factor loadings of constructs. Convergent validity is established if the

value of the average variance extracted (AVE) is above 0.5. the discriminant validity is established if the value of average shared variance (ASV) is less than AVE. According to the results, all constructs were meeting the given criteria which established the prevalence of convergent and discriminant validity. Cronbach's alpha's value of all constructs was greater than 0.70. Table 2 reports the factor loadings of all the items in the questionnaire (See Appendix A). Table 3 depicts the calculated reliability and validity of the constructs. Table 4 shows the correlation matrix of constructs respectively.

Table 3: Reliability and Validity

	Variable	No. of Items	Convergent Validity (AVE)	Composite Reliability	Discriminant Validity (ASV)	Cronbach's Alpha
1	Risk Taking	2	0.64	0.71	0.07	0.82
2	Innovation	3	0.80	0.73	0.02	0.76
3	generation+Adaptation	3	0.60	0.68	0.12	0.76
4	Pro activeness	8	0.66	0.71	0.10	0.74
5	Access to Finance	5	0.68	0.82	0.04	0.75
6	Strategic flexibility	8	0.82	0.80	0.23	0.82
	SME Performance					

Table 4: Correlation Matrix

		1	2	3	4	5	6
1	Access to Finance	1					
2	Risk taking	.30	1				
3	Pro-activeness	.41	.20	1			
4	Innovation generation+Adaptation	.38	.39	.77	1		
5	SME Performance	.56	.49	.60	.67	1	
6	Strategic Flexibility	.38	.27	.56	.55	.56	1

(1-tailed Pearson's correlations significant at $p < .01$)

4. Results

Following regression equation analyzed to test the hypotheses of this research

SME Performance = $\beta_0 + \beta_1$ Risk taking + β_2 Innovation generation+Adaptation + β_3 Pro-activeness + β_4 Strategic Flexibility + β_5 Access to Finance

Regression analysis produced R square value of .47 which indicates 47% of the variation in SMEs performance due to change in any of the independent variables depicted in the regression equation given above. Table 5 shows the results of multiple regression analysis performed on data in SPSS 23.0

Table 5: Regression Results

Constructs	Beta	t- vale	p-value
Access to Finance	.32	3.1	.02
Risk Taking	.14	2.9	.01
Innovation generation+Adaptation	.28	2.8	.01
Pro-activeness	.21	3.4	.03
Strategic Flexibility	.30	1.2	.08

Results of multiple regression depicted in Table 5 show that risk taking shares a significant positive relationship with SMEs performance ($\beta = 0.14$, $p < .05$). Innovation generation+Adaptation shares a significant positive relationship with SMEs performance ($\beta = 0.28$, $p < .05$). Pro-activeness shares a significant positive relationship with SMEs performance ($\beta = 0.21$, $p < .05$). SME performance shares a significant positive relationship with access to finance ($\beta = 0.32$, $p < .05$), and an insignificant relationship with

strategic flexibility ($\beta = 0.30, p > .05$). Therefore, we accept H₁, H₂ & H₃ that all the dimensions of EO; risk taking, proactiveness, and Innovation generation+Adaptation have a positive relationship with SMEs performance, and H₄ proposition that access to finance has a positive relationship with SMEs performance. Keeping in view the above-mentioned results we reject H₅ which proposes that strategic flexibility have a positive relationship with SMEs performance as this relationship turned out to be insignificant at $p=.08$

5. Conclusion, Limitations & Future Research

The results of this study conclude that EO and access to finance positively affect the performance of SMEs in the sports goods manufacturing sector of Pakistan. At the same time the results show that strategic flexibility has no effect on SME performance in the sports goods manufacturing sector of Pakistan. Strategic flexibility enables a firm to efficiently manage uncertainty in markets by flexibly utilizing a pool of diverse resources and a portfolio of strategic options. Strategic flexibility is recognized in the literature as an asset developed by a firm to succeed in a competitive marketplace (Aaker & Mascarenhas, 1984; Chen, Wang, Nevo, Benitez, & Kou, 2017). The findings of this study reveal that strategic flexibility has no role in affecting SMEs performance in the sports goods manufacturing sector of Pakistan. Whereas, a significant amount of literature has found a positive relationship between strategic flexibility and firm performance. In this aspect findings of this research contradict with existing literature. Findings suggest that it is not essential for sports goods manufacturing SMEs in Pakistan to adopt strategic flexibility to increase its performance. A major factor behind this conclusion might be the international reputation of the sports good industry of Pakistan which has resulted in the high demand of Pakistan made sports goods in foreign markets.

This research provides valuable insights for SMEs managers and policymakers to enhance/promote SME performance in the sports goods manufacturing sector of Pakistan. Moreover, SMEs performance was not operationalized using financial measures of performance which might have produced a more realistic picture pertaining to the impact of EO, strategic flexibility, and access to finance on SME performance. The self-rated performance measure

used to operationalize SME performance in this research might have caused biasness in the responses of managers. Due to managers' own perspective of evaluating firm performance in responding to the survey questionnaire there is a possibility of having response bias in the data collected for SME performance. In order to eliminate this likely source of response bias further research should be based on financial measures of performance.

Future researchers can carry out the same research across different manufacturing sectors of SMEs such as consumer goods manufacturing SMEs which require more focus of managers to carry out business successfully. This study is conducted in the manufacturing sector, and future researchers can undertake this study in the services sector SMEs. Specifically, SMEs operating in online retailing as a context for replicating this study may be a promising area of inquiry as online buying and selling have increased.

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Appendix A

Table 2: Factor Loadings of items

Items	Variable	Factor Loading
“The loan size received was adequate for business.”	Access to Finance	0.67
“It was difficult to access or get the loan.”	Access to Finance	0.78
“It took a long process to get the loan.”	Access to Finance	0.89
“The amount received failed to meet my requirements.”	Access to Finance	0.73
“Mandatory group savings was required for the loan.”	Access to Finance	0.68
“Mandatory individual savings was required for the loan.”	Access to Finance	0.77
“Mandatory savings act as security for the loan.”	Access to Finance	0.80
“Savings were optional.”	Access to Finance	0.91
“We always try to make some new changes to our business”	Innovation generation + adaptation	0.60
“We always try to develop new products which cannot be offered by competitors”	Innovation generation + adaptation	0.89
“We keep on developing new products/services for our business”	Innovation generation + adaptation	0.93
“Our business undertakes market research in order to identify market opportunities”	Pro-activeness	0.53
“We try to adopt strategies that would keep us ahead of our competitors.”	Pro-activeness	0.76
“Our business always looks for new businesses or markets to enter.”	Pro-activeness	0.97
“We enjoy facing a difficult task from which other people want to keep away”	Risk Taking	0.60
“We prefer high-risk projects with a high return”	Risk Taking	0.80
“Our business strategy can be changed quickly if a large competitor changes its business strategy.”	Strategic Flexibility	0.77
“We try to benefit from diversity in our environments by keeping our strategy somewhat flexible.”	Strategic Flexibility	0.66
“Our strategy emphasizes exploiting opportunities arising from changes in the environment.”	Strategic Flexibility	0.89
“Our strategy reflects a high flexibility in managing risks.”	Strategic Flexibility	0.76
“We emphasize versatility and adaptability in managing our employees.”	Strategic Flexibility	0.68

“How important is this Return on investment for your company?”	Performance	0.78
“How important is this Return on equity for your company?”	Performance	0.86
“How important is this Sales growth for your company?”	Performance	0.71
“How important is this Net profit margin for your company?”	Performance	0.66
“How important is this Market share for your company?”	Performance	0.71
“How important is this Return on the asset for your company?”	Performance	0.80
“How Satisfied are you with the company’s Return of investment achievement of the goal”	Performance	0.71
“How Satisfied are you with a company’s Return on investment achievement of the goal”	Performance	0.89