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The Influence of Environmental Factors and Access to Financial Capital on the Link Between Entrepreneurial Orientation and SMEs Performance: A Case from Pakistan

Abstract

This paper is an attempt to explore the buffering role of environmental factors and access to financial capital on entrepreneurial orientation (EO) and SMEs performance relationship in Pakistan. The population of the study consists of all the SMEs that are operated in KPK, Pakistan. We select the sample from the Peshawar division, which includes three districts i.e. Peshawar, Charssada and Nowshetra. The study used a multistage cluster sampling technique. Through this technique, the study finally selects the 254 organization from the selected population. The managerial levels employees of SMEs were the respondents of the study and the responses were gathered through a structure questionnaire. The study found a significant positive relationship between EO and firm SMEs performance. It is also found that the relationship between EO and SMEs performance is moderated by access to financial capital. Furthermore, EF did not affect the relationship.

Key Words: Entrepreneurial Orientation, Firm Performance, Access to Financial Capital, Environmental Factor, Small and Medium Enterprise

Introduction

The economic growth of less developed or developing countries depends on SMEs performance. These SMEs act as a valuable strategy for economic development, poverty reduction, job creation and income generation (Imran et al., 2018; Fayaz & Shah, 2017; Syed, Ahmadani & Shaikh, 2012). The researcher also suggested that the topic of SMEs has attracted the focus of scholars and practitioners (McKelvie & Wiklund, 2010). The researchers also suggested that the EO from the last decades as illustrious are in the entrepreneurship field (Knight, 2000). Rauuch et al., (2009) argued that the term the entrepreneurship has a precise function that enhance the EO and firm performance link. Researchers like Fairoz et al., (2010) states that in developing countries, EO and SMEs performance links are silent or not well understood. Financial capital is also considered a vital source for the enhancement of the SMEs performance (Shariff et al., 2017; Fairoz et al., 2010; Cooper et al., 1999). Fairoz et al., also suggested that the right on the financial resources is not necessary, but it is necessary to access these financial resources (Tijo et al., 2012). According to Wikland and Shepherd (2005) AFC influenced the relationship between EO and the SMEs firm performance. Furthermore, environmental factor is the essential determinants for the SMEs performance. According to Covin and Slevin (1989), environmental factors are essential for those SMEs firm which take opportunities from these environmental factors within the situation and environment. Environmental factor also have strong control on the growth of the SMEs firm and (Wiklund & Shepherd, 2005; Covin & Slevin, 1989).

Many researchers suggested that SMEs are a vital part of the growth in numerous economies (Haider et al., 2017; Mason et al., 2015; Shabaz et al., 2014). According to the Small and Medium Enterprise Development Authority (SMEDA), the contribution of Pakistani SMEs to GDP is less as compared to other developing countries. For continuous production and global competition, the SMEs should implement and enforce the entrepreneurial activities within the organization (Othman, Hashim,

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& Wahid, 2012). As mentioned above, that previous researchers highlighted and give the link of EO and firm performance in developed countries, but up to date limited studies were found to study the relationship of EO and firm performance in the perspective of less developed countries. Researchers also suggested that the relationship between EO and firm performance may be improved by considering AFC and environmental factors in developing countries like Pakistan (Fayaz & Shah, 2017; Muchiri & McMurray, 2015; Mason et al., 2015).

The results and outcomes of this research study contribute a lot of knowledge in the field of entrepreneurship literature. A number of researchers in the field of entrepreneurship have focused and worked on the developed economies or Western culture, but this research tested this relationship in Pakistani context with moderations AFC and EF. The findings of this study will also suggest the direction for financial institutions and also for the government to finance the SMEs in sufficient ways. This study will also be helpful for the organizations that are related to the government, such as SMEDA and SMEs banks to initiate more training institute and program in order to enhance and develop a good attitude of entrepreneurial among SMEs entrepreneurs in Pakistan.

Literature Review

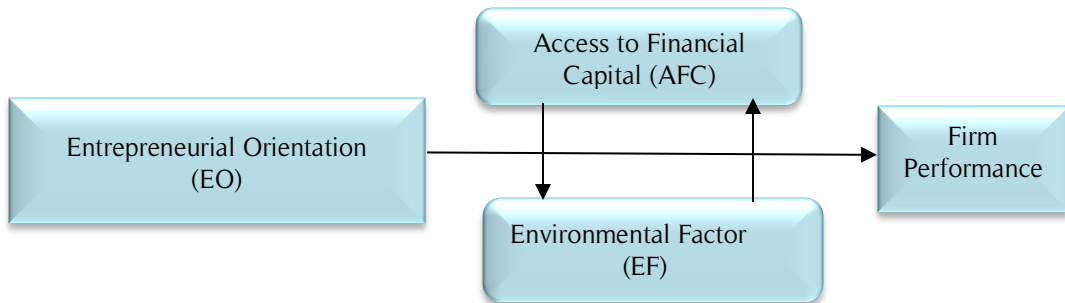
In the entire world, developing economies have faced numerous challenges when search for their economic development (Lumpkin & Dess, 1996). All at once, most of the developing economies may face different problems (Javed et al., 2018). Most of the countries might face varying economic challenges such as unemployment, equitable income distribution, infrastructure and institutional deficit and poverty alleviation (Ayuso & Navarrete-Báez, 2018; Tan, 2007; Antoncic & Hisrich, 2004). According to Shah et al. (2013), the essential role of the SME sector has become significant because the SME firms contribute towards employment generation, income generation, export and greater imports of the country. Promotion and support to SMEs have precisely the part of the government strategy for employment creation, generation of the income, poverty reduction and for economic development (Gunawan et al., 2016; Ali, 2013). According to Subhan, Mahmood and Sattar (2013), SMEs create a large size of employment opportunities, which enhance the living standard of people and make the economy successful for the country.

In Pakistan, the SME sector also viewed as an engine for the development of the economic growth, because of the great importance of the national economy (Ali, 2013). According to Hussain and Yaqub (2010), it is essential to start a development program for SME in coordinated ways to further strengthen this sector. The government brings some economic policies and enhancement developmental program for the development of the SMEs sector (Hoque, 2018; Islam et al., 2011). Wikuland (1999) suggested that EO is becoming an interesting and illustrious subject in the research field of entrepreneurship. In developed countries like the US in the research field of entrepreneurship, the EO is familiar and accepted, while in the non-US business environment EO still in the early stage or the stage of immaturity (Tipu et al., 2012). Numerous researchers suggested that EO has three types of characteristics, innovativeness, pro-activeness, risk attitude (Wikland & Shepherd, 2005; Hussain & Yaqube, 2010; Miller, 1983). Miller (1983) found and suggested that the firm, which is entrepreneurial in nature, carried some market innovation by undertaking some risky decision and acting with proactively behavior. Researchers also suggested that non-entrepreneurial firm as compared to an entrepreneurial, identified that is having a lower level of innovation in the market, risk avoider and in the of follower rather than lead to competitors. The main objective of entrepreneurial behavior firm to increase the performance of the firm (Hughes and Morgan, 2007). Trailer, Murphy and Hill (1996) did not give any detail for the measure selection of the firm performance. Wikuland and Shepherd (2003) suggested that precise measures of the firm performance should be taken to find the performance of the SME firm. No solid agreement has been found among the scholar for the use of an essential set of measurement of the firm performance (Huges & Morgan, 2007; Murphy, Hill & Trailar, 1996). Therefore the relationship of EO and firm performance is interesting and most important in term of SMEs (Slater & Narver, 2000). Researchers give detail of the mix results of the EO and firm performance

relationship. Kruse et al., (2005) found and suggested the direct relationship, while some researchers suggested that there is no evidence found for the direct relationship of EO and firm's performance (Slater & Narver, 2000). Previous studies found and suggested a positive and indirect relationship between EO and firm performance (Huges & Morgan, 2007; Kruse et al., 2005; Wikland & Shphered, 2005). There is some other variable that gives the conflicting results of the EO and firm performance i.e. research methodologies, sample design and sample selection (Rauch et al., 2009). Based on the above research studies and their mix results, this study also analyzes the direct and indirect relationship of EO and firm performance among SMEs sectors in KPK Peshawar.

Access to Financial Capital (AFC) increases entrepreneurial improvement and hence improved the growth and development of entrepreneurial firms (Rogo et al., 2017; Batra, Kaufmann & Stone, 2003). Cooper et al., (1999) stated that financial capital is considered is a vital source for the enhancement of the SMEs firm performances. He also stated that rights on finance are not necessary but the opportunity to these resources is beneficial for the SMEs' enhancement (Tipo et al., 2012). AFC is significantly and positively influenced the EO and firm performance relationship (Hussain, Abbas & Khan, 2017; Manzai & Fatoki, 2012; Wikuland & Shphehred, 2005). Furthermore, Environmental Factor is a vital factor for the SMEs performance. Moreover, researchers also stated that the EF plays an essential role in the relationship between EO and performance of SMEs (Hernandez & Fernandez, 2018; Lumpkin & Dess, 1996). He also stated that two types of EF i.e. external environmental factors and internal environmental factors affect the EO and firm performance relationship. This relationship can best identify by induction of EF as a moderating variable. According to Ramp and Mosweunyane (2017), environmental are essential for those SMEs firms which capture the opportunities' from these EFs within a suitable environment. EF has a strong moderating effect on the growth of the SME firm and its capability (Wiklund & Shepherd, 2005; Covin & slevin, 1989).

Theoretical Framework of the Study



Study Hypotheses

1. There is a significant and positive relationship between EO and Firm Performance.
2. The relationship between EO and firm performance is significantly moderate by the AFC.
3. The relationship between EO and firm performance is significantly moderate by the EF.

Research Methodology

The population of the study was the top managerial level employees of SMEs whose operates in KPK. According to SMEDA (2011), the total numbers of SMEs are 2800 SMEs that are operating and working in KPK. The collection of the data from the whole population is difficult for the researcher, therefore the sampling frame of the study limited to the Peshawar division. The number of SMEs that are operating in the Peshawar division is 739. Peshawar division has consisted of three districts, which are Peshawar, Nowshera and Charsadda. For the collection of the data, the study used a multistage cluster probability sampling technique. The division of Peshawar consists of three districts i.e. Peshawar,

Charsadda, Nowshehra. The total numbers of SMEs in district Peshawar are 515. Based on stratified random sampling we select 254 managerial level employees from SMEs. Finally, the current study selected a sample of 254, owner or manager from the selected SMEs that were operated in Peshawar, Charsadda and Nowshehra districts through a multistage cluster sampling technique.

As mentioned above that 254 samples were selected and the questionnaires were distributed among these selected SMEs. The questionnaires of 212 received back by the researcher with a response rate of 84.45%. From which, 19 questionnaires that having a percentage of 8.95% were founded incorrect or incomplete that was considered useless and discarded from further analysis. In the end, the study 193 questionnaire having a percentage of 75.98% correct and working were selected for further data analysis and technique. This research study used a structured questionnaire for the collection of the data regarding the study variables. The SMEs that were not operated in the selected region were not selected for the study. The study used structure closed ended questionnaire having a Likert type scale. Independent variable EO having 18 questions and for EO questionnaire help was taken from the questionnaire of Covin and Slevin (1989). The dependent variable for firm performance having 8 questions and help were taken from the Koe et al., (2013). The questionnaire of access to financial capital contains 7 questions. For AFC questionnaire help were taken from the questionnaire of Tomsic et al., (2015), Kamungi et al., (2014) and Wukland and Shiperd (2005). Finally, the questionnaire of EF having 10 questions and the questionnaire were developed from the questionnaire of (Sohn et al., 2003).

Results of Study

Table 1. Coefficient of Alpha Reliability of the Study Variable

Scale	N	Alpha Coefficient
EO	18	.89
Firm performance	8	.80
AFC	7	.86
EF	10	.68

The table above shows the instrument reliability statistics that were used in the study. The technique of SPSS was used to measure questionnaire reliability. The values of the Cronbach's alpha in the above table of all the instruments are good and also greater the standard value (.5) that is recommended by past researchers (Georgy and Malery, 2003).

Table 2. Regression analysis of EO and Firm Performance Dependent variable: Firm Performance

Variables	Coefficient	S.E	T-value	P-value
Constant		1.610	9.48	0.00
EO	.634	0.045	13.80	0.00

R-value; .706, R value; .498, Adjusted R value; .496, D-W value; 1.66, F-statistic value; 190.44, P-sig value; 0.00

Table 2 above illustrates the coefficient regression results of the EO and firm performance. In the table above, the t-value is 13.80. The t- value is significant at the 95% confidence interval as the P-value is less than .05. The value of the EO coefficient in the above table is .634. This positive value of the coefficient indicates a significant association of EO and firm performance. This means that increases in EO will lead to a significant and positive increase in firm performance. The value of the coefficient indicates that one unit increases in explanatory variable EO will make .634 unit changes SMEs performance. The R-value for the regression analysis is .706, while the value of the *R* is .498. This value of *R* illustrates that 49.8% variance occurs in study dependent variable due to the independent variable (EO) of the study. The value of the DW is also in the acceptable range that is 1.66. The value of the F-

statistic is 190.44, which illustrates that the model is good fitted. The P-sig value is 0.00 which shows significance of the F-statistics.

Table 3. Moderation results Moderating variable; Access to Financial Capital

Variable	coefficient	S.E	T-value	P-value
Constant	3.89	0.00	122.00	0.00
AFC	0.30	0.10	6.60	0.00
EO	0.50	0.10	13.10	0.00
Int-1	0.30	0.10	6.00	0.00

R-value; .8, R value; .6,

F-statistic value; 158.20, P-sig value; 0.00

Table 3 highlights whether AFC may affect EO and performance relation. The value of the AFC and EO is 0.00 respectively, which illustrates that AFC and EO positively and significantly affect the firm performance. The most essential value is Int-1 p-value which is 0.00, ($p < 0.05$). This value indicates that the moderating variable AFC significantly moderates the relationship between EO and FP. Based on the above results we conclude that AFC significantly influences the relationship between explanatory and criteria variables. The value of the R is .80, while the value of the *R* is .60. This value of the *R* illustrates that 60% variance occurs in the FP due to EO. The value of the F-statistic is 158.20, which illustrates that the model is good fitted. The P-sig value is 0.00 which shows significance of the F-statistics.

Table 4. Moderation results Moderating variable; Environmental Factors

Variable	coefficient	S.E	T-value	P-value
Constant	3.78	0.00	120.00	0.00
AFC	0.25	0.00	3.48	0.00
EO	0.61	0.00	13.38	0.00
Int-1	0.00	0.10	0.90	0.45

R-value; .7, R value; .5,

F-statistic value; 74.20, P-sig value; 0.00

The above table 5 illustrates the results of the moderating affect of the EF on the relationship of explanatory variable EO and firm performance. The value of the EF and EO is 0.00 respectively, which illustrates that EF and EO positively and significantly affect the firm performance. Here the important point is Int_1 value which is 0.45, which is greater 0.05 ($p > 0.05$) indicating that our moderator has no influence over the study variables. It is clear from the above results that moderating variable EF did not significantly influence the relationship between EO and FP. The value of the R is .70, while the value of the *R* is .50. This value of the *R* illustrates that 50% variance occurs in the dependent variable i.e. FP due to the independent variable of the study. The value of the F-statistic is 74.20, which illustrates that the model is good fitted. The P-sig value is 0.00 which shows the significance of the F-statistics.

Conclusion and Discussion

The current research study investigated the relationship between EO and FP in SMEs in KPK and found that both variables have a significant relationship. It means that an entrepreneur makes newness in their product, add new characteristics, packaging, testing and also advance the quality of the existing product. The entrepreneur also shapes the existing products in a new way and a smart and attractive style to attract customers to buy the products, therefore the sale of the products increases and hence the overall performance of the firms improves. We further justify that entrepreneurial firms used new technology, which enhances the quality of the products, reduces cost of the product and improves firm performance due to enhancement of sales. Wang (2008) also suggested that EO enhance the

performance of the SMEs firms. EO is essential for the enhancement of the SMEs performance (Wikuland & Shepherd, 2005). We checked whether the EO and performance link is improved through possible moderators (i.e. EF and AFC). The findings illustrate that AFC significantly moderates the EO and FP relationship. One may justify that result that a firm must need financial resources to make a new product and to carry out innovation in the same services product, for product innovation and act pro-actively to enhance its performance and also to survive in the existing market. Theriou and Chatzoudes, (2015) also found that AFC moderate EO and FP relationship. Similarly, Xavier et al., (2015), Caglayan and Demir (2014) and Mazanai and Fatoki, (2012), also found the same findings. On the other hand, we found that that EF did not moderate the EO and performance link.

Future Area of Research

Our study injects some significant knowledge to the subject of entrepreneurship as well as EO and FP literature, while our study has many limitations as well.

- First, the current study estimates firm performance on a subjective measure basis. Moers (2005) suggested that a subjective measure of the FP can lead to some FP evaluation bias. The scholar may evaluate the FP by taking an objective measure of the FP just like a change in share price or accounting performance
- Second, we collect data in the point of time (i.e. cross-sectional). In future, someone may use the longitudinal design to avoid such limitation. In longitudinal design taking the data in two or more than two points.
- Third, in this study, the researcher checked only the EO as a dependent variable, while in future scholars may check the dimension of the EO.
- Finally, the current study conducted in the KPK culture of Pakistan. In future, someone may study the concepts of the EO and FP from the perspective of AFC and EF in the other developing countries.

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