

MODERATING EFFECT OF NETWORK TIES ON THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, MARKET ORIENTATION, AND PERFORMANCE OF MSEs

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ABSTRACT

Entrepreneurial orientation, market orientation, and network ties are considered as separate antecedents for performance of enterprises in the developing countries of like Pakistan. Majority of the researchers have highlighted that access to finance is the only main issue behind poor performance. The performance of Micro and Small Enterprises (MSEs) is affected because most of the entrepreneurs ignore Market Orientation (MO), Entrepreneurial Orientation (EO), and network ties. The impact of entrepreneurial and market orientation differs on the basis of network ties. This research is to identify the moderating effect of network ties on the relationship between EO, MO, and performance of MSEs. For collection of data, a structured questionnaire was adopted. This study employed Smart PLS 3 for analyzing the relationship between EO, MO and performance of MSEs. The research concluded that network ties have a significant moderating impact on the relationship between market orientation, entrepreneurial orientation, and performance of MSEs in Pakistan.

Keywords: MSEs, Entrepreneurial Orientation, Market Orientation, Network Ties

INTRODUCTION

Now a day, developing countries are experiencing significant transformations because of technological changes. These transformations also highlight several opportunities, but at the same time create threats and challenges for Micro and Small Enterprises (MSEs) (Vrande, Jong, Vanhaverbeke, & Rochemontd, 2009). Likewise, majority of the developing economies are shifting to market based policies (Ali, 2013). Several industrial sectors experience rapid changes due to increased uncertainty and uneven growth (Al-Hyari, 2013). Similarly, the launching of multinational companies also creates big challenges for the MSEs of developing countries. Multinational companies are aggressive and follow entrepreneurial activities to success, leaving little market space for the MSEs of

developing countries (Shahbaz, Javed, Dar, & Sattar, 2014).

MSEs are considered as major source of employment all over the world (Akhtar, Ismail, Hussain, & Umair-ur-Rehman, 2015). Similarly, MSEs in Pakistan play a pivotal role in employment generation and GDP growth of the country. Importance of MSEs can be recognized from the fact that labor force in Pakistan is employed by MSEs. Despite several initiatives taken by the government of Pakistan (Khan & Khalique, 2014) is below acceptable international levels. For a developing country the growth rate should be above 10%. Whereas, in Pakistan it has fallen below 8% (Wasti, 2015). This highlights the deteriorating situation of MSEs in a country, which requires attention of researchers and policymakers.

According to the literature, entrepreneurial orientation and market orientation are considered as an important tool for the growth of MSEs in the countries like Pakistan (Rauch, Wiklund, Lumpkin, & Frese, 2009; Gürbüz & Aykol, 2009; Boso, Cadogan, & Story, 2012; Kraus, Rigtering, Hughes, & Hosman, 2012). Edwards, Delbridge and Munday, (2005) considered innovation as important and significant part of Entrepreneurial Orientation (EO) and Market Orientation (MO). Similarly, researchers conducted studies on performance of enterprises dependent on market orientation (Vrande, Jong, Vanhaverbeke, & Rochemontd, 2009; Andersson & Löf, 2012; Ahmad, Pirzada, & Khan, 2013). Moreover, the existing literature is vague and scarce in analyzing combined effect of EO and MO, that how collectively EO and MO can boost performance of MSEs. The literature on EO and MO shows positive (Boso, Cadogan, &

Story, 2012) and negative (Eggers, Kraus, Hughes, Laraway, & Snyckerski, 2013) impact on performance of MSEs. According to Baron and Kenny (1986) in the situation where the results are inconsistent, it is better to identify any mediating or moderating variable. In growing economies, government organizations that are developed for the support of micro and small enterprises are un-formalized (Vrgovic, Vidicki, Glassman, & Walton, 2012). Thus, network ties of the enterprises may perform moderating role on the relationship between EO, MO, and performance of MSEs (Stam, Arzlanian, & Elfring, 2014; Asad, Shariff, & Ekam, 2016) in Pakistan. The MSE sector is ignored by the researchers. Therefore, it is important to address the issue in the light of EO and MO along with moderating effect of network ties to address the declining position of MSEs in Pakistan.

LITERATURE REVIEW

Previously several researchers have explained each individual dimension of EO. And they have shown that EO may be area specific, and may not be applied anywhere (Rauch, Wiklund, Lumpkin, & Frese, 2009; Vrgovic, Vidicki, Glassman, & Walton, 2012). This research is conducted by inculcating the combined effect of EO and MO in developing economy of Pakistan as it is ignored in the country.

MSEs in the developing countries like Pakistan hardly get any institutional support to cater entrepreneurial activities. Network ties help MSEs to enhance performance with the help of information and resources obtained through the network ties (Stam, Arzlanian, & Elfring, 2014).

These network ties help MSEs to pool resources through sharing, reduced transportation cost, and enhanced market wisdom (Akhtar, Ismail, Hussain, & Umair-ur-Rehman, 2015). Majority of the studies have analyzed only the direct effect of such ties (Zhou, Li, Sheng, & Shao, 2014), rather than estimating the moderating effect. Despite the fact that researchers have conducted studies on several factors like innovation, environmental conditions, economic conditions to account for the context under which EO and MO (Boso, Cadogan, & Story, 2012), but hardly anyone has studied the impact of network ties that are outside the boundary of the MSEs on their performance. To address the issue this research is being conducted to identify the moderating effect of network ties on the relationship among EO, MO, and MSE performance.

EO is considered as the strategic orientation of the business owner which reflects the willingness of the owner to engage in entrepreneurial behavior. This entrepreneurial behavior includes giving autonomy to employees, being innovative, being proactive, taking risk, and being aggressive in competition (Eggers, Kraus, Hughes, Laraway, & Snyckerski, 2013). All the five dimensions of EO are important for MSEs in order to enhance their performance. If effectively utilized, EO has the capability to boost the performance of any enterprise. Similar to the global scenario, MSEs operating in Pakistan have no exception to it. However, the literature suggests that the effect of EO is not guaranteed in all the situations so it is better to check in the developing country like Pakistan.

Likewise, MO is also considered as one of the important tool to enhance performance. The study focused on MO from the perspective of behavior. MO is taken from three perspectives: market intelligence generation, market intelligence dissemination, and market intelligence responsiveness (Raju, Lonial, & Crum, 2011). The items measured the extent to which firms generate, disseminate and respond to local market intelligence. The results of MO are also not guaranteed all over the world, therefore, it also needs to be studied again in the economic scenario of Pakistan.

EO and MO are internal capabilities of the enterprises and their combined effect creates synergy (Boso, Cadogan, & Story, 2012) but there is no doubt that individually both these have significant impacts over performance of MSEs. It is considered that EO and MO may interact each other to influence performance (Hakala, 2011). However, literature suggest that only MO or EO are not enough. And likewise, the literature is ambiguous regarding the extent to which EO and MO collectively influence performance. Another issue is that few researchers have highlighted a positive influence over performance whereas, others have shown a negative impact of EO over performance.

When the literature shows contradictory results, it is obvious that some other factor is influencing the relationship (Baron & Kenny, 1986). It has been observed that entrepreneurial networking or the network ties have a significant impact on the performance of MSEs. In the similar context in the current research network ties are taken as moderating variable (Stam, Arzlanian, & Elfring, 2014). Thus, the proposed

framework over which the empirical research has been conducted is shown in the figure above.

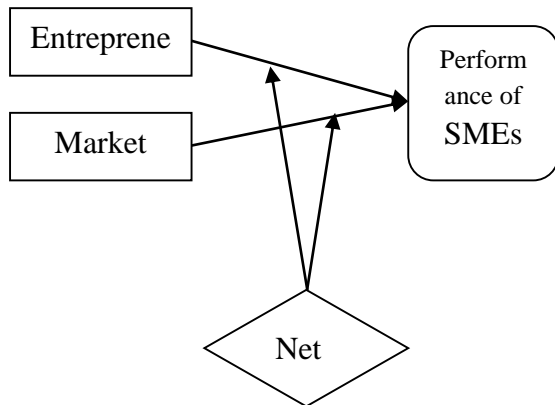


FIGURE 1

Schematic Diagram

On the basis of the above discussion, following hypothesis have been raised in this study:

H_{a1}: Entrepreneurial orientation has a positive impact over performance of MSEs

H_{a2}: Market Orientation has a positive impact over performance of MSEs

H_{a3}: Network ties moderate the relationship between entrepreneurial orientation and performance of MSEs

H_{a4}: Network ties moderate the relationship between market orientation and performance of MSEs

H_{a5}: Network ties moderate the relationship between entrepreneurial orientation, market orientation, and performance of MSEs.

RESEARCH METHODOLOGY

In this research the sample of entrepreneurs operating in Pakistan, a developing Asian country has been chosen. Therefore, the current research involved a multi-industry empirical examination. Cross sectional analysis was conducted which means that data is collected at one point in time. The data was conducted from the whole country. The sampling frame of the study was obtained from Small and Medium Enterprise Development Authority (SMEDA). From the sampling frame 384 MSEs were taken as sample. A self-administered questionnaire was adopted to conduct the study. For measuring the responses 7 point Likert scale was used where 1 = strongly disagree and 7 = strongly agree. Despite the fact that questionnaire was adopted, yet the reliability of the instrument was checked. After having surety that instrument is reliable and descriptive are in the acceptable level, the structural equation modeling was conducted using Smart PLS-3.

RESULTS AND DISCUSSION

All the values of Average Variance Extracted and Composite reliability were checked (Hair & Anderson, 2010). All the calculated values were above 0.5 and 0.7 respectively. Initially, direct impacts were analyzed between EO, MO, and performance of MSEs. To find significance, bootstrapping was conducted (Hacker & Hatemi-J, 2012). Later on, moderator was introduced. The final results of direct algorithms and bootstrapping along with moderator are summarized in the table below:

Table 1

Path Coefficients

Variables	Beta Values	T Statistics	P-Values
Entrepreneurial Orientation	0.285	1.997	0.003
Market Orientation	0.295	2.977	0.001
Network Ties	0.309	3.775	0.001
Moderating Effect 1	0.301	3.201	0.002
Moderating Effect 2	0.442	3.058	0.002

The above-mentioned table shows that MO and EO have significant impact over the performance of the MSEs operating in Pakistan. Likewise, it has been observed that Network ties also have a significant moderating role over the relationship between MO, EO, and Performance of MSEs in Pakistan. Before moderator the value of r^2 was 0.29 and after introducing the interaction term the value of r^2 has increased to 0.47 (Berry & Feldman, 1985; Chin, Marcolin, & Newsted, 2003). This shows that network ties significantly moderates the relationship between EO and performance of MSEs and MO and performance of MSEs.

CONCLUSIONS

The purpose of the research was to identify the moderating role of network ties on the relationship between EO, MO and performance of MSEs in Pakistan. It has been observed that combined effect of EO and MO is very good. Thus, there is no harm in saying that both EO and MO have their own significance in boosting the performance of MSEs in Pakistan. Likewise, as far as the moderating effect is concerned it can also be seen that network ties is moderating both the relationships

showing a great role of network ties over the performance of MSEs.

Finally, it is concluded that high levels of EO and MO can easily enhance performance of MSEs in Pakistan. This fruitful effect is not guaranteed without effective network ties. Specifically, the point of view that network ties are more important for the MSEs in developed countries has been challenged as the current study gives the opinion that it is equally important for the MSEs in developing countries. The current study identified that the business owners in the emerging markets should be more entrepreneurially oriented and more market oriented, and in order to be successful they need to develop strong network ties. However, the development of such capabilities is not so easy and require government support.

RECOMMENDATIONS

The entrepreneurs should be guided to develop the behavior of MO. The future researchers may analyze the same framework by individually identifying the role of each dimension of EO and MO. Furthermore, the future researchers are suggested to conduct qualitative studies to identify more aspects that may affect the performance of MSEs.

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