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Entrepreneurial Orientation and Business Performance of Small and Medium Scale Enterprises of Hambantota District Sri Lanka

Fauzul Mafasiya Fairoz (Corresponding author)
Faculty of Management and Finance, University of Ruhuna, Matara, Sri Lanka
And
Graduate School of Science and Technology, Shizuoka University
836 Oya, Surugua-ku, 420-8017, Japan
Tel: 81-54-238-4826 E-mail: mafasiya@badm.ruh.ac.lk

Takenouchi Hirobumi
Graduate School of Science and Technology, Shizuoka University
836 Oya, Surugua-ku, 420-8017, Japan
Tel: 81-54-238-4826 E-mail: takenous@agr.shizuoka.ac.jp

Yukiko Tanaka
Faculty of Policy Studies, University of Shimane
2433-2, Nobara-cho, Hamada City, Shimane, 697-0016, Japan
Tel: 81-85-524-2273 E-mail: y-tanaka@u-shimane.ac.jp

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Abstract

Entrepreneurship has played an important role in economic growth, innovation, competitiveness and in poverty alleviation. This study investigated the degree of Entrepreneurial Orientation (EO) of twenty five manufacturing Small and Medium scale Enterprises (SMEs) in Hambantota District, Sri Lanka (HDSL) and the effects of EO dimensions including proactiveness, innovativeness, and risk taking to business performance. Interviews were used as the main instrument for data collection. Qualitative and quantitative techniques were applied for data analysis. Findings showed about 52% of SMEs in HDSL represented moderate level of EO. Proactiveness, innovativeness, risk taking and overall EO were significantly correlated with market share growth. Results further indicated there were positive correlations among proactiveness and EO with business performance. This study could be useful for policy makers to plan their activities towards entrepreneurship development of SMEs in HDSL.

Keywords: Small & Medium Scale Enterprises (SMEs), Entrepreneurial Orientation (EO), Business performance, Hambantota District, Sri Lanka

1. Introduction

Enterprise development is almost universally promoted in developing countries, and is often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth (Kodithuwakku and Rosa, 2002 and Landes, 1998). Entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today (Reynolds et al., 2004). Sri Lanka is a small, but openly developing economy with a land area of 65, 610 sq km, with a population of 19.9 million, and a labor force of 7,488,895 in 2007. Despite the tsunami of 2004 and the civil conflict in the Northern and Eastern Province, Sri Lanka has achieved reasonably stable

economic growth, which was 6% in 2003, 5.4% in 2004, 6% in 2005, 7.7% in 2006 and 6.8% in 2007 (International Labor Organization [ILO], 2009). The country's per capita income exceeded US $ 1,500 in 2007 which is higher than that of most of its South Asian neighbors. In the year 2007, the agriculture sector grew by 4.7 % contributing 11.1 % to the overall growth while the industry sector grew by 7.2 % contributing to 27 % to the overall growth. Contribution from the services sector had been the highest at 62.6 % as the sector grew by 8.3 % during the year 2007 (Department of Census and Statistics Sri Lanka [DCSSL], 2008).

Small and Medium Enterprises (SMEs) play a vital role in the economy of Sri Lanka. SMEs have been recognized as an important strategic sector in Sri Lanka for generating high economic growth, reducing unemployment, inequality and poverty (Ministry of Enterprise Development, 2002). Sri Lanka's economy is predominantly a Small and Medium Enterprise economy where over 50 % of GDP is produced by the SME sector. SMEs are found in all sub-sectors of the economy, with a large concentration in manufacturing, and a further concentration of the small ones with 5 – 10 workers. They are widely spread across urban, rural and estate sectors (International Labour Organization [ILO], 2002).

The Government having recognized the importance of this sector in achieving a balanced economic growth, equitable regional distribution and increasing employment and productivity levels, has adopted various policies for the development of SMEs in Sri Lanka. The launching of the SME Bank and the establishment of the SME Authority to function as the apex body for the development of the SME sector, are expected to be the catalyst for SME led growth. (Ministry of Enterprise Development, 2005). The economic rationale for assisting SMEs is that they often use resources more efficiently than larger enterprises that market imperfections and prevent them from maximising the benefits of their efficiency advantages, that they can be an important contributor to pro-poor growth, and that they have potential for growth and employment generation that the micro enterprises cannot match. Compared with large firms, SMEs have greater backward linkages to micro-enterprises, and forward subcontracting links to large businesses, making them an important driving force in the economy. They face higher capital costs and pay lower wages. The salaries paid by SMEs reflect more accurately the true social costs. Consequently, SMEs should in principle use less capital and more labour per unit of output produced, at least so long as they avoid the labour costs implied by excessive union controls and labour law requirements. A second argument regarding efficiency is that most SMEs are managed by their owners and therefore have a greater incentive to manage the capital efficiently (Norwegian Agency for Development Co-operation [NORAD], 2002).

According to an industrial census conducted in 2003/2004 there were 121,426 industries having less than 10 employees with total employments at 285,623 and 9961 industries with more than 10 employees having 747,823 employments in total. Among them, the number of industries with less than five employees accounted for 84.3% of the total, contributing 7.5% to the total production value, 7.0% to Gross Value Added (GVA), and 28.4% to the total employment of the manufacturing sector. Considering the large number of employments by SMEs, and the fact that many SME units, unlike factory industries, are located in the rural areas where unemployment levels are higher. It is pointed out that there are a number of problems associated with SMEs in Sri Lanka, and one of the major problems is lack of entrepreneurship (Sri Lanka Chamber of Small Industries, 2005).

The current research was performed for the selected established manufacturing SMEs in Hambantota district of southern Sri Lanka (HDSL). The Southern Province of Sri Lanka consists of three administrative districts namely, the Galle, Matara and Hambantota. In the deep south of Sri Lanka, Hambantota District boosts a prosperous past civilization and is endowed with many natural resources. These resources offer opportunities for valuable income generation for the District and for the overall development of the country. Hambantota District has a population of 525,370 of whom 96% are considered rural residents. Some 13.4% of the labor force of 244,847 is unemployed - in comparison to the national average of 8.3%. Of those employed, 42.2% are in the agricultural sector, 23.3% in industry with the remaining 34.5% working in the services sector. (Department of Census and Statistics Sri Lanka [DCSSL], 2004).

Hambantota District is clearly a gateway to profitable investment, playing a crucial role in the development of the southern region of Sri Lanka and presenting exciting opportunities for the responsible, visionary investor. Recently the Sri Lankan government has recognized the southern region as an entrepreneurial hub and proposed to establish a new harbor and airport in the Hambantota district because of accelerated progress. These large scale projects, primarily aimed at developing the infrastructure of the area, indicate a move towards the development of the district into a hub of economic development. When assessing the progress of the programs implemented and the sums of money spent for the development of SMEs, the Chamber of Commerce in Hambantota has achieved some remarkable successes and when taken into account the growth of the enterprises in numbers, the growth percentage in Hambantota was slightly higher (Fernando, 2001).

Therefore, it is essential to upgrade the level of entrepreneurship and existing SMEs to be entrepreneurial orientated. This will reflect their innovativeness, pro-activeness and risk-taking qualities, which are particularly important for the growth and business performance of SMEs in the area.

Until recently we have understood little about entrepreneurship in developing countries. To date, a limited understanding of why rates of entrepreneurship vary cross-nationally (Oswald, 2008). Essentially, scholars have a limited understanding about why entrepreneurial oriented firms are more successful in one country than in another (Shane, 1992). Further, there has been limited research devoted to the field of entrepreneurship and growing interest of EO of SMEs, particularly in developing countries. Studies of entrepreneurship in the southern region of Sri Lanka are rare and still in their nascent stage and much remains to be understood of the level of EO of SMEs especially in HDSL. Hence, more in depth studies emphasizing entrepreneurship should help in enhancing SME performance towards achieving local and regional development. Currently, large-scale development projects are being implemented and the present study gives valuable information for policy makers towards entrepreneurship development of SMEs in HDSL. Therefore, proper studies are needed to better understand the degree of Entrepreneurial orientation (EO) and how EO impacts the business performance of SMEs in HDSL.

There are some debates in the literature as to whether or not the dimensions of EO are independent or co-vary under certain conditions. Some have argued that the entrepreneurial orientation construct is best viewed as a unidimensional concept (Covin and Slevin, 1989; Dess et al., 1997; Wiklund 1999). Lumpkin and Dess (1996) advocated that the dimensions of EO may vary independently, which implies that the influence of individual dimensions of EO on firm performance should be emphasized. Each EO dimension affected firm performance differently (Kreiser, et al., 2002; Lumpkin and Dess, 2001). High innovativeness shows positive relationship with sales growth, while proactiveness is positively related to sales level, sales growth, and gross profit (Kreiser et al., 2002). Entrepreneurial firms may exhibit all or some of the entrepreneurial orientation dimensions but they may differ in strength and direction of relationship (Lumpkin and Dess, 2001).

Therefore, it is essential to apply both a unidimensional and a multi-dimensional approach to EO to understand whether each dimension as well as overall EO is differently related to business performance. Thus, the theoretical contribution of this paper focuses on both the unidimensional and multi-dimensions approach of EO and building relationships between individual EO dimensions of proactiveness, innovativeness, risk taking and overall EO with selected business performance variables in a developing economy context.

This study explored to understand the degree of entrepreneurial orientation (EO) dimensions of twenty five established manufacturing SMEs in HDSL and its relationship with performance. There is evidence that SMEs and their performance was importance to the owner/ managers as well as the policy makers and society, there is lack of knowledge on which entrepreneurial factors influence SMEs performance and how they influence the performance (Awang et al., 2009). Specifically, this research attempts to contribute by addressing the following research questions;

(1) To what extent do EO dimensions of proactiveness, innovativeness, and risk taking were demonstrated by manufacturing SMEs in HDSL?

(2) To what extent do EO dimensions of proactiveness, innovativeness, and risk taking impact business performance of manufacturing SMEs in HDSL?

(3) What is the relationship between overall EO and business performance of manufacturing SMEs in HDSL?

2. Literature Review

Contemporary entrepreneurship stressed the importance of a new entry for business innovation referring to the process of creative destruction (Schumpeter, 1936). Miller (1983) clarifies the construct of entrepreneurial orientation and defines an entrepreneurial firm as one that "engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch." According to Miller firms are entrepreneurial if they are innovative, risk taking, and proactive. In general, entrepreneurial orientation refers to top management's strategy in relation to innovativeness, proactiveness, and risk-taking (Lumpkin and Dess, 1996; Miller, 1983; Khandwalla, 1977; Covin and Slevin ,1989). Entrepreneurial orientation (EO) has been suggested as an essential attribute of high performing firms (Covin and Slevin 1989; Lumpkin and Dess 1996; Dess et al., 1997; Lee and Peterson, 2000). A number of studies indicate that entrepreneurial organizations should be conceptualized as possessing the three main characteristics—innovativeness, risk-taking, and proactiveness to assess a firm's entrepreneurial orientation (Covin and Slevin, 1989; Miller and Friesen, 1983). Today's dynamic, global, and challenging business environment requires a firm to be entrepreneurial if it is to survive and grow. Rapidly changing technology and shortened product life cycles support the need for a firm to be innovative and develop new ideas, products, and processes, and be willing to take risks to cope with rapid change. Increased domestic and global competition amplifies the need for a firm to stay ahead of competition.

The innovativeness reflects the propensity of the firm to engage in new ideas and creative processes that may result in new products, services or technological processes (Wiklund, 1999). Proactiveness refers to the extent to which a firm is a leader or a follower and is associated with aggressive posturing relative to competitors (Davis et al., 1991). Risk-taking is the extent to which a firm is willing to make large and risky resource commitments (Stewart et al., 1998;

Covin and Slevin, 1991). Lumpkin and Dess (1996) argued that EO dimensions include innovativeness, proactiveness, risk taking, autonomy, and competitive aggressiveness. Where, autonomy is defined as independent action by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion. Competitive aggressiveness reflects the intensity of a firm's efforts to outperform industry rivals, characterized by a combative posture and a forceful response to competitor's actions.

Lee and Lim (2009) adopted inovativeness, risk taking, autonomy, and competitive aggressiveness dimensions proposed by Lumpkin and Dess (1996) to examine the relationship between each dimension to business performance in Japanese food restaurants in South Korea. This study suggests that EO dimensions have positive impact on business performance. Wiklund and Shephered (2005) applied a configurational approach to investigate the relationship between EO dimensions of innovativeness, risk taking, and proactiveness to measure small firms' performance in 413 Swedish firms. They studied the effect of financial capital and environment as moderators of EO. The results showed that EO positively influences small business performance.

Wiklund and Shephered (2003) focused on the relationship between knowledge-based resources, EO and the performance of 384 Small and Medium Sized Enterprises in Sweden. Findings supports that EO enhances the positive relationship with performance if the firm has a bundle of knowledge-based resources. Miller (1983) and Covin and Slevin (1989) adopted EO as a one-dimensional construct. They insisted that these three dimensions can be combined into a single scale. On the other hand, Lumpkin and Dess (1996) and Kreiser et al., (2002) claimed that dimensions of EO can vary independently of each other. Particularly, a strong positive relationship between EO and performance is found in dynamic and hostile environments (Covin and Slevin, 1989; Dess and Beard, 1984; Miller, 1988; Zahra, 1993). High EO is closely related to first-mover advantages and the tendency to take advantage of emerging opportunities, which ultimately has a positive influence on performance (Wiklund, 1999). Keh et al., (2007) examined the relationship between EO and market information on performance of SMEs in Singapore. They found that EO plays an important role in enhancing firm performance and it has both direct and indirect effects on firm performance. Also information acquisition is not positively related to firm performance, but information utilization has a positive impact on firm performance. Wang (2008) surveyed 213 medium-to- large UK firms in order to investigate the relationship among EO, learning orientation (LO) and business performance. The findings of this study suggest that EO is important for performance. LO is an important mediator in the EO–performance relationship and the EO–LO link is stronger for the prospector than the analyzers type of strategy.

Runyan et al., (2008) examined entrepreneurial orientation (EO) versus small business orientation (SBO), and their impact on small business performance, as well as whether these effects are moderated by longevity of 267 small firms in USA. Firms are grouped based on the age as younger and older firms. Findings revealed that EO and SBO are unique constructs and performance is not the same in these groups: for the younger group, only EO significantly predicts performance while for the older group, only SBO significantly predicts performance.

Based on literature review, most of the studies used only dimensionality of EO or overall EO to show a relationship with business performance. Furthermore, the majority of studies focused EO and overall business performance and not often used each of the EO dimensions in relation to each business performance variable. Therefore, this study from HDSL contributes to the literature by employing both the unidimensional and multi-dimensional aspect of EO with each business performance variables as well as overall business performance to understand the relationship between EO and business performance.

3. Research Methodology

3.1 Sample design and Data collection

Hambantota District Chamber of Commerce (HDCC), leading local organization towards the success of its member small business in Hambantota District. Members of HDCC receive support for their business development through guidance, advice, provision of business information services, financial advice and help for documentation such as reports to be submitted to lending organizations and financial institutions.

At first interviews were conducted with the economic development planner and the manager of handling SMEs of HDCC to plan the study using membership data base and registry. As a first step, considering the data and information from HDCC, manufacturing sector was selected to examine EO in Hambantota District. Sample of manufacturing firms were chosen with total fixed assets of 20 Million Sri Lankan Rupees (LKR) or less, excluding land and building and the number of employees' ranges from 5 to less than 150 in accordance with the definition of SMEs by the National Development Bank of Sri Lanka. Total 125 manufacturing SMEs were registered at HDCC and most of them concentrate around or closer to urban areas, therefore 25 manufacturing SMEs were selected to represent all the sub geographic location including city and rural areas within Hambantota District that established more than five years.

Semi-structured interviews were conducted as a primary data collection method during October 2008 to April 2009 for all selected SMEs. The selection of this method was due to the unwillingness of respondent's to provide information

through other communication methods such as mail survey (Swierczek and Ha, 2003). Owners/managers of SMEs were target respondents for evaluating entrepreneurial activities and business performance of the firms. Prior to data collection, we conducted a pilot study with owner/managers of three manufacturing SMEs in the study area to confirm the understandability and content validity of the survey. The interview with each respondent lasted about one to two hours.

3.2 Measures

All measures of EO dimensions and business performance variables were drawn from the literature. We adopted only three dimensions of EO-innovativeness, proactiveness and risk taking in order to understand the entrepreneurial orientation of SMEs in HDSL. Competitive aggressiveness dimension was eliminated, because some measurement statements are compatible with proactiveness and competitive aggressiveness dimensions. Moreover, proactiveness better describes the entrepreneurship posture of a firm than competitive aggressiveness. Autonomy dimension has been left out, because it has several meanings in organizational context and it is difficult to put appropriate measures in EO context. In addition, proactiveness, innovativeness, and risk taking dimensions have been documented at high levels of reliability and validity in numerous studies (e.g., Kreiser, et al., 2002; Barringer and Bluedorn, 1999; Knight, 1997). EO is measured by nine items, which were developed and tested for reliability by Khandwalla (1977), Miller (1983), Covin and Slevin (1989) by using five point likert- scales ranging from "Strongly disagree" (1) to "Strongly agree" (5). The study was used three items to measure proactiveness, three items to evaluate innovativeness, and three items to gauge risk taking (Appendix 1).

Performance is a multidimensional concept and that the relationship between EO and performance may depend upon the indicators used to assess performance (Lumpkin and Dess, 1996). Thus, single performance indicators likely produce biased results. In previous studies, growth is used as a proxy for business performance (Brush and Vanderwerf, 1992). Growth as a measure of performance may be more accurate and accessible than accounting measures of financial performance (Zahra, 1991). Performance is multidimensional in nature, and it is therefore advantageous to integrate different dimensions of performance (Wiklund and Shephered, 2005). Business performance of SMEs can be measured by both objective and subjective measures (Murphy et al., 1996; Gupta and Govindarajan, 1984). Therefore, to capture different aspects of small business performance, we combined financial and non-financial performance measures for this study. Sales growth, employment growth, profit (pre-tax), market share growth and owner/managers' satisfaction were used to evaluate business performance. Sales, profit, and employment information were obtained through interview with respondents and calculated the average growth rate from year 2006 to 2008. Market share growth was measured based on self reported performance by the respondent from each SME. Self report measure was appropriate and reliable when the objective data is not available (Dess and Robinson, 1984).

The five categories used to capture sales growth were: (1) less than 1%, (2) 1–3%, (3) 3–6%, (4) 6–10%, and (5) more than 10%. Employment growth was measured as: (1) less than 1%, (2) 1 – 3%, (3) 3 – 6%, (4) 6 – 10%, and (5) more than 10%. Pre-Tax profit was sorted by: (1) negative profit, (2) less than 200,000 LKR (3) 200,000 – 600,000 LKR (4) 600,000 – 1000, 000 LKR and (5) more than 1000,000 LKR. Five categories used to measure market share growth were: (1) stable, (2) less than 1% (3) 1 - 2%, (4) 2 - 3%, and (5) more than 3%. Owner/managers satisfaction was assessed on a five-point likert scale ranging from "very low" (1) to "very high" (5).

3.3 Analysis of data

Both qualitative and quantitative methods were used to analyze data. Multiple regression analysis was used to determine the relationship among EO dimensions and business performance variables. At first, the degree of EO of SMEs was determined by the mean value. Significance of the relationship among variables was established based on the results of Pearson correlation analysis.

Reliability analysis was performed in order to ensure the internal consistency and reliability of measures. Cronbach's alpha was calculated to confirm the reliability of constructs. As the coefficient alpha exceeds the 0.70 level, the reliability of the measurements were achieved as recommended by Nunnally (1978). The alpha values for all items used to measure EO dimensions and business performance variables were 0.745 that are represented in Table 6. Considering the alpha values of the measures used in this study, the internal consistency and reliability were acceptable.

4. Results

4.1 Profile of Respondents

The background characteristics of owner /managers were given in Table 1. As can be noted, 68% of the respondents were both founders and owners of SMEs. Most of the respondents were between 30 and 35 years old. Levels of education among respondents indicate that only 04% have University degrees and 40% have advance level qualifications. Considering the experience of the entrepreneurs, approximately 56% were belong to less than two years of previous experience and 24% of them belong more than ten years experience.

Table 2 presents the profile of manufacturing SMEs in HDSL. The manufacturing industries are varied and almost 56% of SMEs are from food and beverages, 02% from machinery & equipment, 02% from jewelers, 04% from building & constructions, and 3% from others; furniture, herbal products and agriculture. In terms of ownership, 76% of the firms were sole proprietorship, 08% were partnership, and 16% were limited liability companies. The age of the SMEs shows that majority (44%) of them being more than 10 years old. In terms of firm size, 52% of firms had number of employees between 10 and 20.

4.2 Descriptive statistics of EO and business performance of manufacturing SMEs of HDSL

In terms of average turnover growth in the last 3 years, 68% of the firms recorded a growth more than 5%. All firms recorded positive pre-tax profit for the period of three years (from the year 2006 to 2008). Approximately 84 % of SMEs recorded more than 5% of average employment growth in the respective period.

Mean values and standard deviation of EO dimensions and business performance variables were shown in Table 3. The data in Table 3 indicate that innovativeness was higher than proactiveness, and risk taking of SMEs of HDSL. According to Table 4, SMEs have been classified as high, moderate and low in all EO dimensions and overall EO according to their mean value. Five SMEs represent the higher level of innovativeness, three firms represent higher level of proactiveness and two firms represent as relatively high risk takers. Only two firms were shown higher degree of EO. The majority of SMEs (52%) reported moderate level of EO. Inter-correlations among dimensions of entrepreneurial orientation and business performance variables were shown in Table 5. Proactiveness, innovativeness, risk taking, and overall EO had a positive significant relationship with market share growth ($p < 0.05$). Proactiveness was significantly correlated with overall business performance ($p < 0.05$) and also positive correlation showed between EO and overall business performance ($p < 0.10$). Quantitative results imply that SMEs in HDSL should improve proactiveness, innovativeness, and take risks in order to protect and increase their market share against competitors and to increase business performance. Results further indicate that firms that adopted high entrepreneurial orientation achieved higher sales growth, higher profit, and increased market share compared to those with low entrepreneurial orientation.

5. Discussion

Quantitative analysis of this study showed that the degree of EO was moderate in the majority of SMEs in HDSL. Only two firms reported higher degree of all EO dimensions; one was a manufacturer of machinery and equipments, the other was a manufacturer of ceramic products. These two firms were received national and district level best SME entrepreneur awards. Most of the firms produced incremental innovations rather than radical innovations.

The most important factor that determines the degree of EO was depending on owner/managers innovativeness. Those owner/managers who possess creative ability, adequate technical skills and industry experiences were supported to be innovative. The majority of SMEs in HDSL started with a very low level of skills and expertise especially managerial and technical know-how, take a while to acquire proficiency and adapt to the firm's environment. This may also cause an indirect impact on EO of the firm. Availability of financial capital was important to initiate research and development, capture efficient technology, introduce innovations, and expand domestic and export markets. Most SMEs in HDSL were lacking awareness of alternative sources of finance, and limited opportunity for inter-organizational networks to cope with financial constraints. However, SME's subjected to present study were operating their businesses by understanding customer needs and value addition to their products and services in an eventual innovative approach. This was obvious that firms operating in a relatively low technology environment. In addition incremental improvements were easy to capture and operate rapidly.

Generally, SMEs in HDSL were established based on availability of raw materials. Owner/managers reported that regional focus was extremely important for cost reduction and access to resources such as raw materials *i.e.* clay, mineral sand, water etc for ceramic products. Although infrastructure and resources were important for EO of SMEs in HDSL, entrepreneurs with positive attitudes, strong vision, and growth motivation could overcome barriers and go ahead, despite the resources constraints. The important role of the entrepreneur of firm innovativeness also confirmed the work of Mel et al., (2009), which investigated the factors determining innovation of micro, small and medium scale enterprises in Sri Lanka. Their study indicated that owner's ability, personality traits, and ethnicity played a significant and substantial impact on the likelihood of a firm innovating, thus confirming the importance of the entrepreneur in the innovation process.

In order to improve the degree of EO, SMEs in HDSL need to develop their skills and capabilities, as well as internal and external networks with educational institutions, technical colleges, financial institutions, and other small and large firms to acquire financial, human, and information resources to exploit and initiate new business opportunities from their external environment. In summation, this study points out the importance of SMEs to improve owner/managers innovative abilities, attention to create entrepreneurial climate, and confront with external competitiveness as a means to be more entrepreneurial to improve business performance.

6. Conclusion

This study was a first-step to investigate SME's entrepreneurial orientation in HDSL. The degree of EO was moderate in the majority of SMEs in HDSL and there was a significant relationship between proactiveness, innovativeness, risk taking and overall EO with market share growth. Significant positive relationship also reported between proactiveness and business performance similar to prior studies (Lumpkin and Dess, 2001; Yang, 2008). Further, EO positively related to business performance of SMEs in HDSL, this relationship also found in several other works (Covin and Slevin, 1989; Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005). It was important for SMEs to be entrepreneurial in order to increase their market share and business performance and further indicated that owner/managers were more innovative, and risk takers of SMEs with high EO than firms with low EO.

In addition, results showed no significant relationship among innovativeness, proactiveness, risk taking and overall EO with sales growth, profit, employment growth and owner/manager's satisfaction. These results, partially consistent with some studies (Moreno and Casillas, 2008) indicated no direct relationship between EO and growth of a firm. This study also confirms that multidimensionality of EO and the independence effect of innovativeness, proactiveness, and risk taking are distinctly correlated with business performance (Lumpkin and Dess, 1996; Yang, 2008; Lee and Lim, 2009). The findings further suggest that it may be better for SME owner/ managers in HDSL to improve entrepreneurial posture towards identifying business opportunities and adopt appropriate entrepreneurial strategies to enhance entrepreneurial orientation and business performance to challenge competition by other firms in Sri Lanka.

7. Implication

The findings of this study have some implications for theory, and practice particularly for development of SMEs in HDSL. The theoretical contribution of this study provides new insights in small business research concerning the southern region of Sri Lanka to follow up similar studies, which may provide more reliable data and interpretations in SME development.

Some points highlighted herein were for the government and non-government sector to focus on promoting the level of EO by directing research and development activities, providing financial resources, training package and consultancy services etc. Also contains some information useful in collaborative work among governments agencies, the chamber of commerce as well as Business Development Services (BDS) to direct more resources and energy to promote, and encourage entrepreneurial culture towards enhance the entrepreneurial orientation of SMEs. Further, the present study may also provide useful information for SME owner/managers in relation to their individual level of entrepreneurial orientation as an assessment in developing their skills.

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Table 1. Background characteristics of SME Owner/Managers in HDSL

Age of the Owner/manager (in Years)	**Frequency**	**Percentage (%)**
31-35	**7**	28
36-40	5	20
41-45	6	24
46-50	3	12
51-55	3	12
Above 55	1	04
Level of education		
Graduate	1	4
Advanced level	10	40
Ordinary level	7	28
Below ordinary level	7	28
Previous business experience		
More than 10 years	6	24
5-10 years	3	12
2-5 years	2	8
Less than two years	14	56
Current position of the respondent		
Founder and owner	17	68
Owner	5	20
Manager	3	12

Table 2. Characteristics of manufacturing SMEs in HDSL

Types of business	**Frequency**	**Percentage (%)**
Food and beverages	14	56
Machinery & equipment	2	8
Jewelers	2	8
Building & construction	4	16
Others	3	12
Age of the firms		
6-10 years	6	24
11-15 years	11	44
16-20 years	6	24
21-25 years	1	4
26- 30 years	1	4
Type of ownership		
Sole proprietorship	19	76
Partnership	2	8
Company	4	16
Number of employees		
5-10	2	8
10-20	13	52
21-30	4	16
31-40	4	16
41-50	1	4
51-60	1	4

Table 3. Mean and standard deviation of EO variables & performance indicators of SMEs in HDSL

EO Variables	**Mean**	**Std. Deviation**
Proactiveness	2.81	0.69
Innovativeness	3.25	0.56
Risk taking	2.98	0.51
EO	3.02	0.51
Business performance Variables		
Sales growth	2.84	1.84
Profit	3.32	0 .74
Employment growth	3.88	1.51
Market share growth	3.24	0.96
Owners/managers satisfaction	4.88	0.33
Overall business performance	3.48	0.58

Table 4. Classification of manufacturing SMEs based on degree of EO dimensions in HDSL

Dimensions of EO	Group by EO	Number of firms
Proactiveness	High	3
	Moderate	9
	Low	13
Innovativeness	High	5
	moderate	15
	Low	5
Risk taking	High	2
	Moderate	13
	Low	10
EO	High	2
	Moderate	13
	Low	10

Table 5. Correlations among dimensions of EO and business performance variables of SMEs in HDSL

Business performance Variable	Entrepreneurial Orientation Dimensions			Overall EO
	Proactiveness	Innovativeness	Risk taking	
Sales growth	0.129	-0.038	-0.120	0.004
Profit	-0.067	-0.169	0.122	-0.051
Employment growth	-0.010	0.104	0.266	0.122
Market share growth	0.360**	0.343**	0.480**	0.444**
Owner/manager satisfaction	0.203	0.095	0.154	0.176
Overall business performance	0.369**	0.207	0.206	0.308*

***P<0.05; *P<0.10*

Table 6. Reliability analysis of EO dimensions and Business performance variables

Cronbach's Alpha	Standard Deviation	Number of items
0.745	5.405	14

Appendix I

Entrepreneurial Orientation (EO) measurement statements

Dimensions of EO		Description of EO items
Innovativeness	IN 1	In general, my firm favor a strong emphasis on Research & Development, technological leadership, and innovations.
	IN 2	In the past 5 years, my firm has introduced many new lines of products or services.
	IN 3	In the past 5 years, changes in our products or service lines have been quite dramatic.
Proactiveness	PR 1	In dealing with competition, my firm often first to initiate actions to competitors, for which the competitors then respond
	PR 2	Very often, my firm is the first to introduce new products/services, processes, technologies, & administrative techniques.
	PR 3	In general, my firm has a strong tendency to be ahead of others in introducing novel ideas or products
Risk taking	RT 1	I have a strong preference for high-risk projects (with chances of very high return).
	RT 2	I believe that, owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.
	RT 3	When confronted with decision-making situations involving uncertainty, my firm typically adopts a bold, aggressive posture to maximize the probability of exploiting potential opportunities.

Notes: Respondents were given instructions to circle a number (ranging from 1, "strongly disagree" to 5, "strongly agree") that corresponded to their agreement to each of the above statements.