
The Effect of Entrepreneurial Orientation on the Organizational Performance: A Study on Banks in Libya

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ABSTRACT

The present study aimed to examine the effect of the entrepreneurial orientation (EO) on organizational performance (OP). This study was motivated by the mixed findings in literature regarding the relationships between EO and organizational performance. Owing to the mixed results, a novel stream of research was created and this motivated further examining of the impact of other variables that may shed a light on the nature of the relationship. Several theories have been proposed in literature posit the direct relationships among strategies, resources and capabilities as antecedents of success. In this study, copies of questionnaires were distributed to 300 Libyan banks branches, where 200 copies of questionnaires were returned and analyzed. The proposed hypothesis was tested through PLS-SEM and the study results showed that EO positively predicted organizational performance.

Keywords: Entrepreneurial orientation; Organizational performance; Libyan banks.

INTRODUCTION

The present global economy's service sector has garnered increasing attention as one of the main contributors to the overall economy's growth. The service sector's increasing contribution has been improved through the revolution brought about by the internet and communication technology (ICT) (Gupta et al., 2005). As the primary contributor to the private sector, the banking industry has been experiencing dynamic changes in markets and business environment as evidenced by one after another financial crisis (Al-Marri et al., 2007). Owing to the extensive provision of financial products and services by providers, the banking industry has created a strong competition. Such competition is compounded by other organizations like the post offices and insurance companies that often times provide similar financial products and services that banks are offering (Hull, 2002; Kaynak and Kucukemiroglu, 1992). As a result, banks need to create a sustainable advantage in order to survive and in doing so, they have to provide optimum quality of products and services at attractive rates (Khalid and Irshad, 2010). Banks have to introduce novel products and services that are unique, rare and inimitable. Added to this, they should concentrate on their worker's talents, skills and capabilities that could form a unique base for the competition edge (Chang et al., 1997).

Evidently, the role of the banking system in the economic growth has been evidenced both theoretically and practically. The country's banking system forms the backbone of its economic structure and it is the impetus that drives the development initiatives and significantly facilitates the prosperity of the economy (Al-Marri et al., 2007). Added to this, banks are significant contributors to the economic growth via the facilitating of SMEs and large organizations financial resources to operate and satisfy objectives (Cohen et al., 2007). In this regard, an effective banking industry coupled with effective financial institutions can play their role in contributing to the economy via the provision of products and services (Al-Hajri, 2008; Fub et al., 2007). Stated differently, normal banks and financial institutions according to Mavridis (2004) have a major role to play in achieving economic growth by providing funds and financial services to the business sector. In the present business environment, it is important for banks to improve their performance to achieve a sustainable competitive edge, and to provide unique products coupled with value-added services (Goh, 2005) that will be brought about through the adoption of effective and innovative strategies. This is the reason

behind the fact that market managers and top leaders who are inclined to secure a considerable portion of the marketplace focus on the banks' competitive performance. Such performance can be enhanced through one of the most important strategies, which is entrepreneurial orientation (EO).

From the viewpoint of strategy implementation, not every strategy implementation initiatives turn out to be successful. In fact, Kaplan and Norton (2000) contended that around 70-90% of firms around the world fail in their *Corresponding Author efforts in terms of strategic implementation primarily because of their failure to implement organizational strategy. Therefore, this requires extensive research to be carried out to examine the factors influencing successful implementation of strategy. To this end, the present work was developed to investigate the relationship between entrepreneurial orientation and organizational performance to shed a light on how EO can impact Libyan banks performance, one of the main players contributing to its economic growth.

2. Entrepreneurial Orientation (EO)

A considerable number of researches in entrepreneurship literature have addressed the topic of entrepreneurial orientation. Researchers are of the consensus of the fact that EO offers benefits although there are many streams upon which the concept is based on in terms of its definition (Davis et al., 2010b). In a related study, Lumpkin and Dess (1996) referred to EO as the set of organizational practices reflecting its approach through the conditions set out in processes and decision making. Similarly, Covin et al. (2006) described EO as a construct reflecting the entrepreneurial abilities of the company.

Additionally, a group of researchers tried to identify some organizational characteristics that facilitate EO development. Specifically, Miller Danny and Friesen (1982) shed a light on some characteristics like the differentiation of the organization over its rivals, its rate of growth and the organizational strategies knowledge level. Wiklund (1999) stated that most studies employed three dimensions in order to measure EO and they are innovativeness, pro -activeness and risk-taking.

Moreover, innovativeness refers to the firm's tendency to take part in new ideas development and creative process which lead to new products, services and development of technology (Lumpkin and Dess, 1996). While pro- activeness refers to the firm's intensity of future market expectations of requirements and opportunities which many or may not be consistent with its operations in order to introduce products or services for the satisfaction of customers and ongoing requirements in the market (Venkatraman, 1989). The tendency of the entrepreneur to acknowledge risk plays a crucial part of EO construct (Davis, 2007). The attitude and behavior of the entrepreneur to the acceptance of risk is the main element that differentiates him/her from other people in the organization. Risk- taking refers to the individual's tendency to seal resource commitments (Miller and Friesen, 1978). It is often utilized to provide a description of uncertainty stemming from entrepreneurial behavior (Kraus et al., 2012).

3. Entrepreneurial Orientation (EO) and Organizational Performance

Entrepreneurial Orientation (EO) is among the most popular strategies for growth and survival of many organizations (Sila and Ebrahimpour, 2002; Zahra, 1991). Therefore, EO has been attracting a great attention by academics and practitioners in the last few years. The importance of EO strategy is justified by its focus to foster innovation, proactiveness, and tolerating risk in order to excite new customers and retain the existing ones (Zahra, 1991; Zahra et al., 1999). Some authors contend that EO impacts positively and significantly the organizational performance (Dada and Watson, 2013; Davis, et al., 2010a; Hughes and Morgan, 2007; Madsen, 2007; Mahmood and Hanafi, 2013; Naldi et al., 2007; Saeed et al., 2014; Sciascia et al., 2014; Walter et al., 2006; Wang and Yen, 2012). On the other hand, some studies didn't find evidence of the significant effect of EO on performance (Andersén, 2010; Slater and Narver, 2000; Smart and Conant, 1994). Moreover, other authors found correlation only in some components of EO to different performance measures (Kropp et al., 2008; Swierczek and Ha, 2003). Despite the increasing number of research examining the effect of EO on performance, the findings in the literature are still far from being inconclusive. There are many reasons for this inconclusiveness. Most of previous studies depend on executives' opinions in small

firms (Miller and Breton-Miller, 2011). Based on previous arguments the following hypothesis is to be empirically tested.

H1: Entrepreneurial Orientation has a positive significant effect on the organizational performance

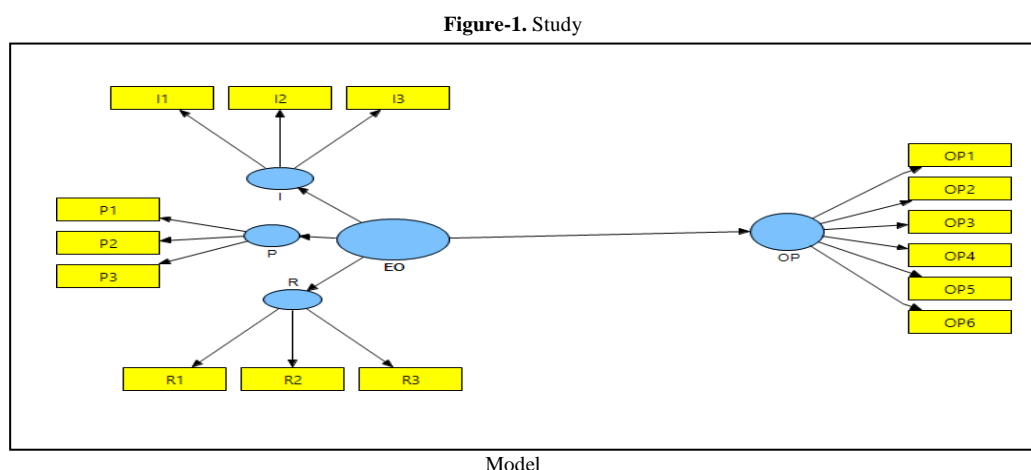
4. Research Methodology and Statistical Data Analysis

4.1. Measurement and Instrumentation

The measurement of organizational performance was adopted from prior studies focused on management. For instance, the measures of Narver and Slater (1990) and Jaworski and Kohli (1993) were employed to gauge performance. Also, some items were taken Mar Fuentes-Fuentes et al. (2004), as well as Kaplan and Norton (1993). Additionally, Covin and Slevin (1989) proposed items were employed to measure the dimensions of EO.

4.2. Population and Sample

The study population comprised of 14 Libyan banks, with a total of 460 banks branches. The study model was tested to determine the proposed hypotheses. A simple random method was used to choose data from the list of banks' branches. On this basis, 300 questionnaires were distributed out of which 200 questionnaires were retrieved and found suitable for analysis. The Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to examine the model through Smart PLS package 2.0. The following sections provide the details of the analysis.



4.3. The Measurement Model

In the first step, the validity and reliability of the measurement model was confirmed with Partial Least Square Structural Equations Modeling (PLS-SEM) through the use of Smart PLS 2.0. According to Anderson and Gerbing (1988) this part of the analysis involves the assessment of construct validity through content validity, convergent validity and discriminant validity.

4.3.1. Construct Validity of the Measurements

Construct validity is describe as the level to which the items developed for the construct measurement can suitable measure the concept they are meant to measure (Hair et al., 2010). The entire items created to measure a construct should load on their respective construct higher than the other constructs. To ensure that this happens, a comprehensive literature review was done to produce the items that prior studies have already validated. On the basis of factor analysis, items were appropriated to their constructs and showed high loadings on them compared to other constructs as evidenced by the results in Table 1 and the entire items significantly loaded to their constructs as recommended by Chow and Chan (2008).

4.3.2. Convergent Validity of the Measurements

The composite reliability values obtained, and presented in Table 2, ranged from 0.926 to 0.882, which exceeded the recommended value of 0.7 (Fornell and Larcker, 1981; Hair et al., 2010). Added

to this, the average variances extracted (AVE) values fall between 0.795 and 0.664, which indicate a good level of construct validity of measured as established by Barclay et al. (1995). The outer model's convergent validity is validated by the results.

Items	Innovativeness	Organizational Performance	Proactiveness	Risk Taking
I1	0.837	0.608	0.657	0.469
I2	0.920	0.582	0.761	0.677
I3	0.915	0.602	0.837	0.664
OP1	0.599	0.906	0.632	0.549
OP2	0.636	0.889	0.623	0.562
OP3	0.477	0.814	0.480	0.548
OP4	0.430	0.729	0.421	0.450
OP5	0.627	0.890	0.638	0.514
OP6	0.449	0.622	0.505	0.341
P1	0.700	0.618	0.859	0.563
P2	0.804	0.566	0.901	0.666
P3	0.777	0.658	0.934	0.727
R1	0.675	0.577	0.701	0.889
R2	0.451	0.440	0.498	0.795
R3	0.582	0.519	0.627	0.847

Table-2.
Convergent validity

	Variables		Items	Loading	Cronbach's Alpha	Composite Reliability	AVE
Innovativeness			I1	0.837	0.871	0.921	0.795
			I2	0.920			
			I3	0.915			
Organizational Performance			OP1	0.906	0.894	0.921	0.664
			OP2	0.889			
			OP3	0.814			
			OP4	0.729			
			OP5	0.890			
			OP6	0.622			
Proactiveness			P1	0.859	0.880	0.926	0.807
			P2	0.901			
			P3	0.934			
Risk- Taking			R1	0.889	0.799	0.882	0.713
			R2	0.795			
			R3	0.847			

1.1.1.Discriminant Validity of the Measures

The measures' discriminant validity was confirmed through [Fornell and Larcker \(1981\)](#) method. The square root of average variance extracted (AVE) for the entire constructs (See [Table 3](#)) were placed at the diagonal elements of the correlation matrix. Such diagonal elements were greater compared to the other elements of the role and column wherein they were situated, indicating the outer model's discriminant validity.

Table-3.
Discriminant validity

	1	2	3	4
Innovativeness	0.892			
Organizational Performance	0.667	0.815		

Proactiveness	0.848	0.683	0.898	
Risk- Taking	0.684	0.611	0.729	0.845

1.1.1. Prediction Relevance of the Model

The results of the prediction quality of the model are presented in Table 4, wherein the cross-validated redundancy of organizational performance 0.335, and its cross validated communality is 0.664. Such values are greater than zero and this shows the model's sufficient predictive validity on the basis of Fornell and Cha (1994).

Table-4. Prediction relevance of the model

Variable	R square	Cross-Validated Communality	Cross Redundancy	Validated
Organizational Performance	0.513	0.664	0.335	

Figure-2. Path model

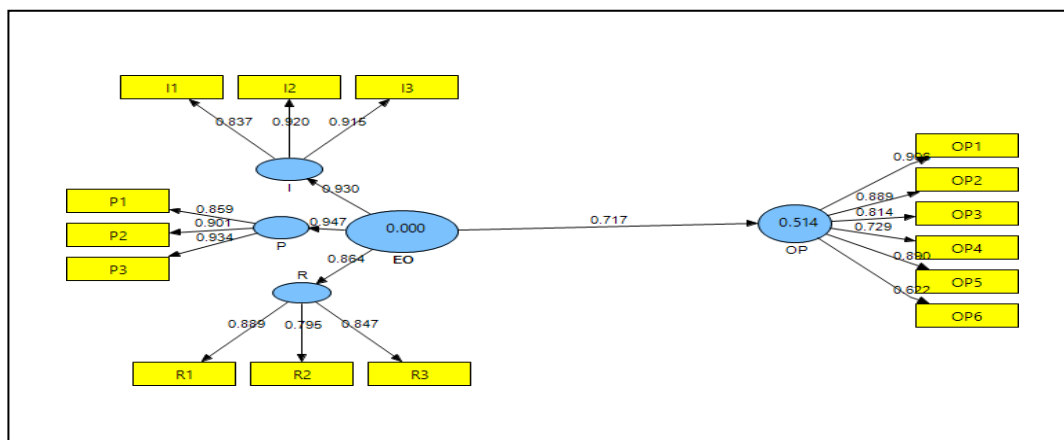
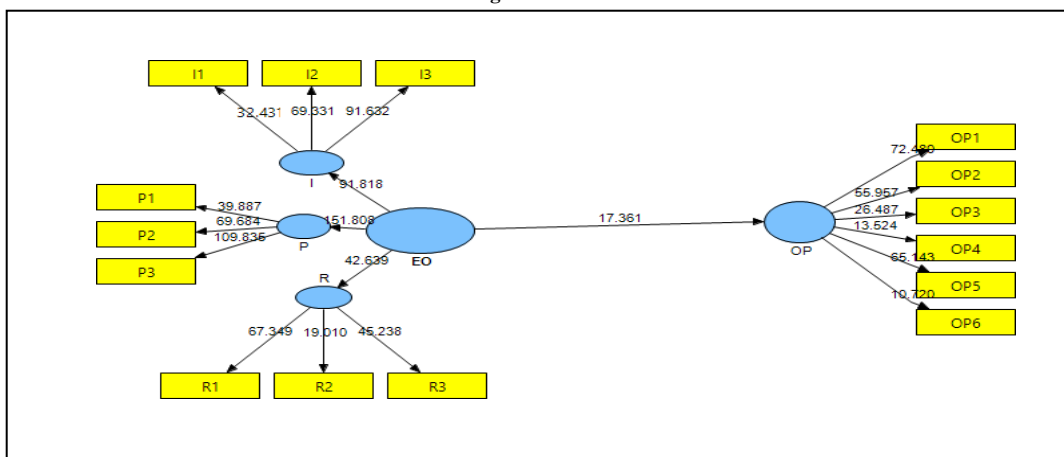


Figure-3. Path



model significance results

1.1.1. Hypotheses Testing

The results illustrated in Figure 3 and Table 5, show EO's positive and significant impact on organizational performance at the level of significance of 0.001 with ($\beta=0.717$, $t= 17.361$, $p<0.001$). Therefore, the results supported the proposed hypotheses H1.

Table-5. The results
of the hypothesis
testing

Hyp.No	Hypothesis	Path Coefficient	Standard Error	T-Value	P-Value	Decision
H1	EO-OP	0.717	0.041	17.361	0.000	Supported

*:p<0.05; **:p<0.01; ***:p<0.001

1. Discussion and Conclusions

This study aimed to investigate the direct impact of EO on organizational performance. According to the results obtained, the relationship between EO and performance was positive and significant. This study is an empirical one where data was gathered from Libyan banks. The researcher made use of partial least squares structural equations modeling (PLS-SEM) to test the model and the study results supported the proposed hypothesis. EO positively and significantly impacted organizational performance at 0.001 level of significance ($\beta=0.717$, $t=17.361$, $p<0.001$) indicating support for H1, and consistent with prior studies that reported the This result is consistent with several studies that revealed superior performance from firms with EO (e.g. (Abebe, 2014; Al-Swidi *et al.*, 2012; Arief *et al.*, 2013; Campos and Valenzuela, 2013; Dada and Watson, 2013; Keh *et al.*, 2007; Li *et al.*, 2009; Mahmood and Hanafi, 2013; Saeed *et al.*, 2014; Sciascia *et al.*, 2014)). Indicating that organizational leaders may benefit from implementing EO strategy to maximize and improve the organization for survival and growth in the current dynamic and complex market environment.

Additionally, based on this result, EO is effective in achieving Libyan banks organizational performance. According to Wiklund and Shepherd (2003), entrepreneurial traits and activities are needed for the survival and growth of organizations. Nevertheless, other studies such as Dimitratos *et al.* (2004), George *et al.* (2001), (Slater and Narver, 2000) and Walter *et al.* (2006), this positive EO impact is not supported. Other studies that showed positive results concluded that organizations having high entrepreneurial activities display optimum performance in comparison to their low entrepreneurial counterparts. The positive result indicates that bank leaders should not only be entrepreneurial but they also have to acknowledge the opportunities in their grasp to obtain competitive advantages.

This study highlighted the EO significance towards organizational performance as prior studies also presented inconsistent results – specifically, the current study contributes to management literature through its re-examination of the EO impact on organizational performance to reach a consensus in literature. This study confirmed EO's positive and significant effect on organizational performance. Practically, based on this study's findings, the entrepreneurial role within the organization is among the primary characteristics that helps its survival and achievement of a strategic status in the market. Hence, managers in Libyan banks are advised to draw up and follow effective plans that can improve entrepreneurial culture and traits among its workers.

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