

Organizational Determinants of Entrepreneurial Orientation: (With Reference to Small Scale IT-BPO Firms in Sri Lanka)

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Abstract: *Entrepreneurial Orientation (EO) is a key construct of entrepreneurship and it is the proclivity of behaving in an entrepreneurial manner. This measures the degree of entrepreneurship and entrepreneurially oriented behavior is a critical requirement so as to consolidate the competitive advantages of firms in the contemporary turbulent and highly competitive markets. Thus, the objectives of this study were to assess the level of EO and to identify the organizational determinants of EO of small scale IT-BPO firms in Sri Lanka. The results confirm that majority of the firms are in the low level of EO. As to the independent sample t-tests, higher the management support rewards and time availability higher will be the level of EO. Autonomy and organizational boundaries were not statistically significant determinants EO in this study context.*

Keywords: Entrepreneurial orientation, IT-BPO firms, organizational determinants

1. Introduction

Sri Lanka has been identified as a country among 20 economies which are transforming from a factor driven economy to efficiency driven economy (Global Competitiveness Report, 2013-2014). Further, Sri Lanka is placed at the 42nd level of the eleventh pillar, "Business sophistication and innovation" in the above index. Sri Lankan economy is performing well ahead in this pillar especially with compared to other economies which are in the transition from factor driven economies to efficiency driven economies. After the 30 years of war, Sri Lanka is in a mission of achieving a double digit growth and hence, there is a need of transforming the economy from the current transition level to an innovation driven economy which would in turn places Sri Lanka at a highly competitive level among other economies. The success factors of transforming an economy from an efficiency driven economy to an innovation driven economy include business sophistication and innovation (Global Competitiveness Report, 2013-2014). In fostering such an innovation driven economy, strategic behaviour of individual firms in the economy will be playing a crucial role as those would create a spillover effect in leading sophisticated and modern business processes across the country's business sectors.

However, against such a need, increasing global competition coupled with rapidly changing technology, and shortening of product life cycles, have made firms vulnerable to failure more than any time in the past (Jalan & Kleiner, 1995). In times of growing uncertainty and increasing speed of change, both new threats and new opportunities emerge (Brown & Eisenhardt, 1998; Shane & Venkataraman, 2000). Providing a splendid instance for this, Sri Lanka is emerging as a challenge to other economies in Information Technology -Business Process Outsourcing (IT-BPO) sector as it has been identified as one of the top destinations for providing outsourcing services by Global Services Location Index (GSLI). It is apparent that the companies in the IT-BPO and Knowledge Process Outsourcing industry in Sri Lanka are

able to compete with fully developed sectors in China and India. Therefore, Sri Lankan IT-BPO companies need to become more entrepreneurial so as to increase their competitiveness, on both an organizational and country level.

As cited by Hosseini et al. (2012), Entrepreneurial Orientation (EO) is a behavioral orientation (Morris et al. 2011) toward entrepreneurial activity (Covinet al., 2011) and in fact, it measures general tendency toward entrepreneurship (Antonicic and Hisrich 2001; Knight 1997; Miller 1983). Thus, variable nature of entrepreneurship can be measured in terms of EO (Barringer & Bluedorn, 1999; Kreiser, Marino & Weaver, 2002). EO is important for the survival and performance of the firms (Miller, 1983; Covin and Slevin, 1989 and 1991; Zahra and Covin, 1995; Wiklund, 1999; Zahra and Garvis, 2000; Lumpkin and Dess, 1996 and 2001; Wiklund and Shepherd, 2005) and also it is an antecedent of growth, competitive advantage and superior performance of a firm (Kraus et al., 2012). Further, entrepreneurially oriented behavior of a firm is essential for the flexibility and quick decision making especially in a turbulent business condition (Wiklund, et al., 2009).

However, factors inside the firm such as directives of top management, employee rewards, slack and slack resources trigger entrepreneurship and entrepreneurial behavior of a firm and create differential effects in terms of stimulating entrepreneurship and entrepreneurial behavior of a firm (Ireland et al. 2006). However, as stated by Hoskisson et al. (2000) it is essential test theories in emerging economies, as western-type approaches may not be appropriate in developing economies, due to environmental uncertainty, lack of institutional structures and managerial interpretations of environmental uncertainties. Although many studies have been conducted on entrepreneurial orientation, there is a paucity of empirical evidence on organizational determinants of EO in the general literature and especially in Sri Lankan context creating a timely importance to identify the organizational determinants of EO of this strategically important sector, IT-BPO companies in Sri Lanka.

Accordingly, this study raises the following questions and establishes the following objectives (Table: 1).

Table: 1 Research Questions and Objectives

<i>Research Questions</i>	<i>Research Objectives</i>
1) How entrepreneurially oriented are the IT-BPO firms in Sri Lanka?	To identify the level of EO of IT-BPO firms in Sri Lanka
2) What internal factors will determine the level of EO of IT-BPO firms in Sri Lanka?	To identify the determinants of the level of EO of IT-BPO firms in Sri Lanka

2. Theoretical Background

As per the research questions stated above, the following section focuses on conceptualizing EO firstly and organizational factors secondly.

2.1 Entrepreneurial Orientation

It has been a common stance that varying nature of entrepreneurship can be measured in terms of EO (Barringer&Bluedorn, 1999; Kreiser, Marino & Weaver, 2002). As cited by Matsuno et.al (2002), literature witnesses several different terms such as entrepreneurial management (Stevenson & Jarillo, 1990), entrepreneurial proclivity (Pellissier& Van Buer, 1996), EO (Lumpkin & Dess, 1996), have been used interchangeably to describe the concept of degree of entrepreneurship. The degree of entrepreneurship or the propensity of a firm towards entrepreneurial behavior can be assessed by the three constructs: innovativeness, proactiveness and risk-taking (Covin&Slevin, 1988, 1989, 1991; Miller, 1983; Miller & Friesen, 1983, 1982; Kahandawala, 1977; Miles & Arnold, 1991; Morris et al., 1993; Narman&Slevin, 1993; Zahra & Covin, 1995; Knight, 1997; Ireland et al., 2009 & 2006, Scheepers& Hough, 2006; Becherer& Maurer, 1997; Barringer&Bluedorn, 1999; Matsuno et al., 2002; Kreiser et al., 2002; Messegheem, 2003; Wiklund& Shepherd, 2005; Boohene et al., 2012). However, as to Lumpkin & Dess (1996), there are two additional variables; autonomy and competitive aggressiveness. Thus, this study conceptualizes EO by using the mostly adapted definition of Miller (1983).

2.1.1. Innovativeness

According to Miller (1983); Wiklund (1999); and Lumpkin and Dess (2001), innovativeness is the firm's tendency towards engaging in introduction of new products, services and processes in a creative and experimental manner. Knight (1997) indicates that as a dimension of firm level EO, innovation refers to the creative or unique solutions for the threats that the firm encounters. The ability of a firm to generate ideas leading the production or provision of new products, services and technologies is known as innovativeness (Morris, 1998).

2.1.2. Risk Taking

Risk factor is an inevitably related feature of entrepreneurship. Miller and Friesen (1978), define risk taking as the degree to which managers are willing to make large and risky resource commitments such as those which have a reasonable chance of costly failures. Not only the resource commitments but also according to Gasse (1982),

an entrepreneur faces many different kinds of risks namely, financial risk, career risk, family and social risk and psychic risk. As cited by Boohene (2012), risk taking captures the level of risk reflected on decisions on resources allocation, as well as on the market and product choices, reflecting, the criteria and the standard of decision taking in organizational level (Venkatraman, 1989). Morris (1998) stated that risk-taking is the determination and courage of making resources available for projects with uncertain outcomes and such risks are managed by researching a market, recruiting and employing skilled staff or other strategies by the firms.

2.1.3. Proactiveness

Proactiveness is an opportunity-seeking, forward-looking perspective characterized by the introduction of new products and services ahead of the competition and acting in anticipation of future demand (Miller, 1983). As to Morris (1998), proactiveness indicates top management's stance towards opportunities, encouragement of initiatives, competitive aggressiveness and confidence in pursuing enhanced competitiveness. Kocel (1995) has used the concept of proactiveness with the meaning of "giving direction" to the events by affecting and forecasting the future needs, expectations and changes instead of going behind them. The term proactiveness is defined by Lumpkin and Dess (1996) "as acting in anticipation of future problems, needs or changes." Thus, a proactive firm is a leader rather than a follower.

2.2 Organizational Factors

According to the "Institutional Theory", firms implement various structures, processes, programmes, policies and procedures in order to overcome the pressure exerted by the competing firms in an industry (Kostova& Roth, 2002) and these firm specific arrangements influence the firm behavior affecting firm decision and strategy making processes (Peng et al., 2008). The factors inside the firm such as directives of top management, employee rewards and slack resources trigger entrepreneurship and entrepreneurial behavior of a firm. Moreover, these internal environmental triggers have differential effects in terms of stimulating entrepreneurship and entrepreneurial behavior of a firm (Ireland et al. 2006) and the level of entrepreneurship will vary in intensity, depending on the changes in the culture (Scheepers& Hough, 2006). In developing Corporate Entrepreneurship Assessment Instrument (CEAI), Hornsby et al. (2002) have identified that management support, autonomy, rewards, the availability of time & resources and a supportive organizational structure are such crucial factors of degree of entrepreneurship of a firm. Therefore, this study uses these five critical factors and measuring instrument will be the CEAI of Hornsby et al. (2002).

2.2.1 Management Support

As per Hornsby et al., (1993), the encouragement and willingness of managers to facilitate entrepreneurial activities within a firm is considered as the management support and this is of vital importance for awaking entrepreneurial spirit within an organization (Kuratko and Montagno, 1989). Further, such endeavours within firms will be resulted in sustainable competitive advantages through innovation in the form of new products, services, and

processes, or in a mix of those (Quinn, 1985; Brentani, 2001; Hornsby et al., 2002). Management support will positively influence entrepreneurial behavior of a firm (Stevenson and Jarillo, 1990). Hence,

H₁: *Higher the management support higher will be the EO of a firm*

2.2.2. Autonomy

Autonomy means the discretion of employees to perform their work independently and such independent action will not be questioned when they make mistakes in pursuit of innovative activities (Hornsby et al., 2002). As cited by Alpan et al. (2010), autonomy and flexibility are essential factors for an effective intrapreneurial climate of a firm (Mintzberg, 1973; Khandwalla, 1973; Burgelman, 1983, 1984; Slevin & Covin, 1990; Covin & Slevin, 1989; Barringer & Bluedorn, 1999; Honig, 2001). Accordingly,

H₂: *Higher the autonomy higher will be the EO of a firm*

2.2.3. Rewards

This includes the appropriate performance based extrinsic and intrinsic rewards offered by the firms to motivate employee entrepreneurial activities in a firm. If the employees perceive that their reward system is trustworthy and create benefits to all, higher will be the tendency to commit for innovative activities Morrison and Robinson, 1997; Chandler et al., (2000) and to assume risk related with entrepreneurial work performance Kuratko et al., (1990). Further, rewards aimed at entrepreneurial behavior trigger innovative, proactive and moderate risk-taking behavior of individuals (Monsen et al., 2010). Hence,

H₃: *Higher the rewards higher will be the EO of a firm*

2.2.4. Time and Resources Availability

Delivery of free time and required resources for entrepreneurial activities within firms will encourage the perception of feasible entrepreneurial behavior (Pinchot, 1985; Covin and Slevin, 1991; Kreiser et al., 2002). Organizational processes, policies and procedures towards free time inevitably will encourage employees to assume risks for putting their novel ideas into practice (Burgelman 1984; Fry, 1987; Sundbo, 1999; Hornsby et al., 2002). Adequate time availability and resources filled environment will enhance a firm's capacity for experimenting new ideas proactively. Therefore,

H₄: *Higher the time and resources availability higher will be the EO of a firm*

2.2.5. Organizational Boundaries

This is the administrative mechanism of a firm through which a firm executes the process of entrepreneurship. Thus, an encouraging mechanism has to be there in order to evaluate, select and implement successful ideas within a firm (Hornsby et al., 2002). A highly bureaucratic organizational structure will be ended up with restricting employees identifying issues beyond their assigned duties and that will limit the external focus of employees. Entrepreneurship within firms will be flourished when the organizational structure comprises with a broader span of control creating

opportunities for employees to act entrepreneurially (Ireland, 2006). Thus,

H₅: *Higher the supportive organizational boundaries higher will be the EO of a firm*

Accordingly, the conceptual framework can be portrayed as follows.

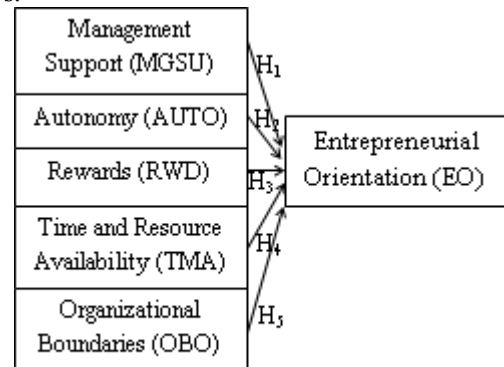


Figure 1: Conceptual Framework

3. Research Methodology

3.1 Population and Sample

The population of this was comprised with IT-BPO firms in Sri Lanka. IT-BPO firms have got registered in Sri Lanka Association of Software and Service Companies (SLASSCOM) and the sample selection was executed with the sampling frame obtained from SLASSCOM. Accordingly, there were 48 registered small scale firms (Annual turnover between \$100,000 & \$500,000) and expected to study the whole population. However, only 37 firms responded making the response rate 77% from the intended sample size.

3.2 Data Collection

Data were collected by using a structured questionnaire and this was emailed to all the 48 firms. The questionnaire was comprised with three main sections; Section – I - demographic information of the firms, Section – II Entrepreneurial Orientation and Section – III -Organizational determinants. Both EO and organizational determinants were measured by using Five-Point-Likert Scale items and the former was measured with self-developed questionnaire items and the latter was measured by using the Corporate Entrepreneurship Assessment Instrument (CEAI) developed by Hornsby et al. (2002). Further, conducting a pilot survey prior to the mass data collection, the reliability of the questionnaire was assessed and the results are summarized below (Table: 2).

Table 2: Reliability Test Results

Constructs of EO	Cronbach's Alpha
Innovativeness	0.76
Proactiveness	0.78
Risk Taking	0.79
Management Support	0.85
Autonomy	0.84
Rewards	0.81
Time Availability	0.72
Organizational Boundaries	0.76

3.3 Data Analysis

In assessing the level of EO of small scale IT-BPO companies in Sri Lanka, mean, percentages, frequencies, graphs and tables were used. Independent sample t-test was performed in testing hypotheses. In classifying the both independent and dependent variables to identify the EO level, mean value was taken as the base for the classification. The situations above the mean value was considered as the high level of performance of the particular variable and the situations below the mean value were considered as the low level of performance in the respective variable.

4. Results and Discussion

Data were analyzed by using the statistical package of SPSS and the following section is dealt with the results and discussion in terms of the stated objectives. Thus, level of entrepreneurial intensity will be discussed firstly and that will be followed by the analysis on organizational determinants of EO.

4.1 Level of Entrepreneurial Orientation

Level of EO was classified in to two categories and there were 20 firms which are low in their level of EO while there were 17 firms with high level of EO out of 37 firms in the sample. Further, descriptive statistics of the overall level of EO and the dimensions of EO are summarized below (Table 3).

Table 3: Descriptive Statistics of overall EO level and EO dimensions

Statistic	Overall EO	Innovativeness	Proactiveness	Risk Taking
Mean	11.19	3.74	3.75	3.71
Median	11.10	3.70	3.80	3.60
Std. Dev.	0.93	0.47	0.37	0.39
Minimum	9.50	2.70	3.10	2.90
Maximum	13.50	4.70	4.50	4.60

Accordingly, it can be observed that in the overall EO level, the difference between mean and median is at a negligible level confirming that data are distributed in an approximately normal distribution. Considering the minimum and maximum values with median, the variation in the upper end is higher. In the case of innovativeness, there is a higher variation in the lower end whereas in proactiveness and risk taking dimensions there is no such a considerable difference in upper and lower end of the continuum. Thus, generally, there is no higher variation in the level of EO although the classification has done and that is clearly confirmed by the findings of 20 firms of low level of EO and 17 firms of high level of EO.

4.2 Organizational Determinants of EO

Based on the Independent Sample t-tests, the differences of EO in terms of organizational variables were identified. The Levene's Test for Equality of Variances in Independent Sample t-Test was performed for each variable and the SPSS summary results are as follows (Table-4). Accordingly, all the F-tests are statistically insignificant at ($P > 0.05$) confirming the variance is constant and thus, suitable for further analysis.

The Table-5 summarizes the results of the Independent Sample t-test. Accordingly, it can be identified that MGSU, RWD and TMA are statistically significant at $P < 0.05$, confirming that there are significant differences in level of EO in terms of those three independent variables.

Table 4: Levene's Test for Equality of Variances

Variable	F	Sig.
MGSU	0.380	0.541
AUTO	0.874	0.356
RWD	0.097	0.758
TMA	0.017	0.896
OBO	0.022	0.882

Table 5: Summary Results of Independent Sample t-Tests

Variable	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
MGSU	-2.7	35	0.01	-0.77	0.284
AUTO	-1.4	35	0.174	-0.42	0.304
RWD	-3.4	35	0.002	-0.93	0.272
TMA	-2.5	35	0.016	-0.76	0.3
OBO	-1.7	35	0.099	-0.5	0.3

For a better visualization, these differences can be depicted graphically as follows (Figure 2).

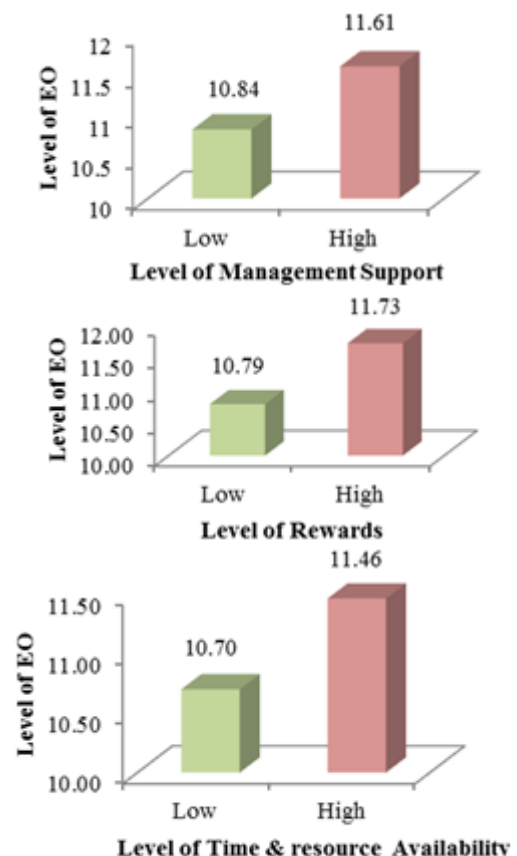


Figure 2: Difference of Level of EO in terms of MGSU, RWD & TMA

However, it is obvious that data do not support for a statistically significant difference in the level of EO in terms of AUTO and OBO.

In examining these differences what makes clear is that high levels of MGSU, RWD and TMA give rise to high level of EO. Therefore, data support for the following hypotheses.

H₁: Higher the level of management support higher the level of EO

H₃: Higher the level of rewards higher the level of EO

H₄: Higher the level of time availability higher the level of EO

Accordingly, it is clear that management support, rewards and time and resource availability encourage the EO behavior of the firm.

Although it is said to be that autonomy and organizational boundaries are essential factors for entrepreneurial behavior within companies, in the Sri Lankan setting we cannot observe a considerable difference of EO in terms of those two variables. As to Gamage et.al, (2003), "compared to the western countries, Sri Lankans prefer a more 'structured' social order and therefore, Sri Lankans are less autonomous and more dependent on their place in the surrounding social system". Confirming this cultural influence, McGrath et al. (1992) stated that cultural values influence entrepreneurial behavior. As per the Hofstede Center analysis, Sri Lanka is high in collectivism, power distance and uncertainty avoidance). This hierarchical culture will lower the autonomous behavior and gives rise to restricted organizational boundaries. Therefore, rather the autonomy and organizational boundaries support coming from the top management will be a higher motivator for the entrepreneurial behavior in Sri Lankan context.

5. Conclusions and Suggestions

This study was conducted with the aims of assessing the level of EO and identifying the organizational determinants of EO in small scale IT-BPO firms in Sri Lanka. Thus, the findings suggest that there is no considerable level of a variation of the level of EO although the classification witnesses for 20 firms with high level of EO and 17 firms with low level of EO. Hypotheses testing confirmed that higher the management support, rewards and time and resource availability higher will be the level of EO. Therefore, top management should exhibit a strong level of commitment for encouraging employees to engage in innovative practices by providing appropriate rewards and making available the required time and resources. Strong support for new idea generation and experimentations and acceptance of employee suggestions, championing projects with employees and tolerance for failures in innovation development will be essential for higher EO level. Higher recognition with monetary and non-monetary rewards for entrepreneurial activities of employees is of greater significance in this context. These results are compatible with the findings of Sheepers et al. (2008). Further, findings are partly supportive for Antoncic&Hisrich(2001); Hornsby et al. (2002); Morris &Kuratko(2002).

Finally, future research can be extended to other industries in the Sri Lankan setting especially to see whether the entrepreneurial behavior with less autonomy and structured organizational boundaries continues to be there. Further, future studies can consider studying the effect of intermediary variables such as national culture in order to see

whether culture moderates the EO of a firm based on the basic model given above. Moreover, since the behaviours might be shaped by the national culture, future researchers can test the effect of perceived social norms on firm EO also.

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