

# Relationship between Entrepreneurial Knowledge and Strategic Orientation

P.G.M.S.K. Gamage\*, W.M.P.G.C. Weerakoon\*\*

\* Department of Management Sciences, UvaWellassa University

\*\* Department of Management Sciences, UvaWellassa University

**Abstract-** Despite the importance of entrepreneurial knowledge in encouraging strategic behavior of SMEs, there is a dearth of literature examining this link. A sample of 50 SMEs owner managers in Badulla Divisional Secretariat was investigated with the aim of identifying the relationship between entrepreneurial knowledge and strategic orientation. A structured questionnaire was used to collect data. Overall level of strategic orientation of the studied sample was at a medium level while the entrepreneurial education level was at a high level. The regression model (52.9% R-square) confirmed that entrepreneurial knowledge is a strong predictor ( $P < 0.01$ ) of strategic orientation. This study informs the provincial level policy makers the direction they should take in designing and delivering the training programmes for future entrepreneur development initiatives.

**Index Terms-** Entrepreneurial Knowledge, Strategic Orientation, SMEs Owner Managers.

## I. INTRODUCTION

The strategic behaviors targeting continuous superior performance of the business is known as strategic orientation (Gatignon&Xuereb, 1997) and it motivates and directs on the approach a firm should take in relation to innovation (Murray, 2012). This strategic gesture of small and medium enterprises (SMEs) is encouraged by entrepreneurial knowledge (Hearth & Mahmood, 2013). Moreover, SMEs have their own specific way of operations where demographic, psychological and behavioral characteristics and skills and technical competencies of the entrepreneur have been cited frequently as most influential factors of performance (Mitchelmore& Rowley, 2008).

However, entrepreneurial and strategic management perspectives jointly contribute to explain the strategic orientation needed to achieve and sustain competitive advantages (Esteve, Peinado&Peinado, 2008). Recently researchers has focused on investigating internal moderators of the strategic Orientation and performance relationship (Convin et al. 2006; Lumpkin & Dess 1996; MaMahon, 2001). According to the Esteve, Peinado&Peinado (2008), knowledge level of the managers has identified as internal factor. However, according to the Esteve, Peinado&Peinado (2008), research has not found a moderator effect of the knowledge level of top managers on the strategic Orientation and performance relationship while Hitt& Tyler (1991) and Wiersema&Bantel (1992) found that the type of academic degrees held by executives influenced their strategic decisions.

However, the existing literature has so far provided only limited evidence to support the link between entrepreneurial knowledge and strategic orientation (Matlay, 2008). Further, the effects emanating from entrepreneurial knowledge on performance has poorly been understood (Graevenitz, Harhoff& Weber 2010). Hence, the twin objectives of the study aim to identify the levels of entrepreneurial knowledge and strategic orientation and thereby to identify the relationship between them.

A sample of 50 SMEs owner managers were randomly selected from a list of 397 owner managers registered in Badulla Divisional Secretariat. Data collection was facilitated by a structured questionnaire with 5-point Likert scale statements based on the constructs defined by Vesper (1987) for entrepreneurial education and Venkatraman (1989) for strategic orientation. The pilot study of 15 owner managers informed a high reliability level of the questionnaire with a Conbach's Alpha value exceeding 0.7 in all the dimensions of the questionnaire. Levels of entrepreneurial education and strategic orientation were analyzed by using mean and graphs. The simple linear regression model presented below was employed to identify the relationship between entrepreneurial education and strategic orientation.

$$SO = \beta_0 + \beta_1 (EE) + \varepsilon$$

Where,  $\beta_0$  = Constant; EE = Entrepreneurial Education; SO = Strategic Orientation;  $\varepsilon$  = error term

Accordingly, this study has been investigated the previous research findings, which are related to Entrepreneurial Knowledge (EK) and Strategic Orientation (SO). Secondly, it has been deliberated the result of the study. Then, it has been organized the discussion and conclusion related with the result.

## II. RESEARCH ELABORATIONS

Previous research findings, which are related to entrepreneurial knowledge (EK) and strategic orientation (SO) has summarized as follows. Firstly, the definitions of each variable and constructs of them has been revealed.

### **2.1. Entrepreneurial Knowledge (EK)**

Entrepreneurial knowledge describes as the concepts, skills and mentality required by enterprise owner (Anderson & Jack, 2008). It is involving with multidisciplinary such as many skills and technical factors (Wei & Guo, 2010). As cited by Packham *et al.*, (2010), entrepreneurial knowledge and skills can be taught and developed (Gibb, 2005; Kuratko, 2005). According to Vesper (1986), the attitudes and personality traits required for successful entrepreneurship can be transferred through learning. Further, it plays an important role in the process of building entrepreneurial capacity (Hannon, 2006).

According to Packham *et al.*, (2010), there are main objectives for effective EK. As cited by Jones (2010), they are develop wide understanding (Chen *et al.*, 1998; Jack & Anderson), acquire entrepreneurial mind set (Loudon & Smith, 1999) and how to start and operate an enterprise (Solomon *et al.*; 2002). Further, as cited by Sehhat & Ghanepasand, (2014), knowledge is resulted by experience, skill, culture, personality, emotion (Beijerse, 2000).

However, there is no comprehensive criteria for measurement of entrepreneurship knowledge in organization and most of the researchers' concentrated on role of knowledge of owners (Sehhat & Ghanepasand, 2014). Most of the knowledge based researches were applied the vesper's knowledge levels (Shane *et al.*, 2000) and It has been identified as constructs for this study.

#### *Business General Knowledge*

According to the Vesper, (2004) business general knowledge is able to gain in the classroom. Specially, the knowledge about each functional area of the business and the knowledge of start up the business are the specialized knowledge areas under this knowledge level (Vesper, 2004). Further, the way of stretch the resources, pursue bootstrapping and fundraise and the way of selling vision of the business are concerned under this knowledge. Further, Dierickx & Cool (1989) has been identified General Knowledge as a stock which reflects the background of the entrepreneur.

#### *Venture General Knowledge*

The content which is included in entrepreneurial course is identifying as venture general knowledge (Vesper, 1986). Further, Information of venture capital, venture plan, intellectual property should be included in this level of knowledge (Vesper, 1986).

#### *Opportunity Specific Knowledge*

Opportunity specific knowledge is more vital and essential element for entrepreneurs (Ardichvili, Cardozo, & Ray, 2003; Gaglio & Katz, 2001; Shane & Venkataraman, 2000). It is important to start company, business survey related on the particular type of business person wishes to start and the existent knowledge is concerned in this level of knowledge (Vesper, 2004). Further, it can be developed through market experience and it cannot be taught (Vesper, 2004). Therefore, understanding the opportunity identification process represents one of the core intellectual questions for the domain of entrepreneurship (Gaglio & Katz, 2001)

#### *Venture Specific Knowledge*

Venture specific knowledge is a half of the opportunity specific knowledge which cannot be taught in the class room (Vesper, 2004). Knowledge regarding production of a particular product or service is identified as venture general knowledge (Vesper, 2004). Further, it can be identified as knowledge learned by the entrepreneur during certain activities occurring during the start – up process Friga (2000). According to Dierickx & Cool (1989), venture specific knowledge is identified as specific knowledge flows which reflects the knowledge acquiring through learning.

### **2.2. Strategic Orientation (SO)**

As to Manu & Sriram, (1996) SO is how an organization uses strategy to adapt to and change aspects of its environment for a more favorable alignment. As cited by Bing & Zhengping (2011), SO reflects the strategic directions of firm to create the proper behaviors for the continuous superior performance of the business (Narver & Slater, 1990). According to Hitt *et al.*, (1997); Venkataraman, (1989); it is the heart of the strategic management discipline and it is a dynamic capability that represents the organization's ability to integrate and built internal and external competencies (Zhou, Yim, & Tse, 2005; Teece, Pisano & Shuen, 1997).

SO is consisted with multidimensional constructs (Voss & Voss, 2000). It refers to umbrella term covering different constructs such as market orientation (MO) Entrepreneurial Orientation (EO) and Learning Orientation (LO) (Barney, 1991). As cited by Faryabiet *al.*, (2002) there are three main views, narrative approach, classificatory approach and the comparative approach has been used for examine the strategic orientation (Venkatraman, 1989).

Most of the strategic orientation dimensions were derived from the Venkatraman's (1989) and Chan's (1992) instruments (Hopper, Huff & Thirkell, 2007) Since, Venkatraman's (1989), Strategic Orientation of Business Enterprise (STROBE) model is selected for this study and the dimensions of selected frame work are further defined as follows as constructs of the study.

#### *Aggressiveness*

Aggressiveness is the willingness to challenge and perform better than the competitors (Lumpkin & Dess, 1996). It means aggressiveness is more rival focused and aimed at introducing new products, new markets and type of competitive action (Miles & Cameron, 1982). Further, Buzzel *et al.*, (1975) has been explained that aggressiveness seeks first-mover advantage and exhibits a combative posture in exploiting market opportunities. More, aggressiveness exploiting and developing resource more rapidly than the competitors Clark & (Montgomery, 1996). According to the Venkatraman (1989), the procedure of resources allocation which adopted by the organization in its selected market for improving market position at a relatively faster rate than the competitors has identified as aggressiveness.

#### *Analysis*

Analysis is the tendency of an organization to find out profound for the roots of problems and to generate the best possible solutions alternatives (Venkatraman, 1989). The over role problem solving ability is concerning with the analysis dimension (Miller & Friesen, 1984). Resource allocation decisions and use of appropriate management system decision are relating with this dimension (Grant & King, 1982). More, analysis is the firm's knowledge building capacity (Bourgeois, 1980). Further, it completes understanding of organizational and environment issues as result of overall problem-solving approach to strategic decision making (Miller & Friesen, 1984). According to the Grant and King (1982); Venkatraman (1989), analysis is the procurement of competitive strategy to achieve anticipated objectives in nature of internal systems.

#### *Defensiveness*

Defensiveness is behaviors aimed at protecting a firm's market position through cost reduction and opportunity seeking as to develop with in the market (Venkatraman, 1989). As cited by Chatzoglou *et al.*, (2011) defensiveness is the organization's ability to maintain prominence within its domain (Morgan & Strong, 2003). Further, strategies that are rigid and conservative as well as a static view on product-market scope remaining existing product without moving to new product has identified as defensiveness (Miller, 1989). Further, this reflects the strategies are made by firms to be able to accumulate selected capabilities and skills, and develop composite strategies to outperform less domain focused firms (Hart & Banbury, 1994; Morgan & Strong, 2003). Miller (1989) has been identified defensiveness as strategies that are rigid and conservative as well as a static view on product-market scope remaining existing product without moving to new product.

#### *Futurity*

Futurity is establishing the future desired state and reached it by processing through business plan (Andrews, 1971; Ansoff, 1975; Grant & King, 1982). It emphasizes on long term consideration against short term consideration of the firm. The view of preparation and positioning in future environmental situations by the organization (Morgan & Strong, 1997). According to the Venkatraman (1989), futurity is sequential considerations included in key strategic decisions, in terms of relative emphasis of effectiveness considerations versus efficiency considerations. The role in reducing corporate anxiety about competitive futures and providing a base to understanding the pattern, form, and extent of potential change in competitive market are the supports which are included in futurity (Courtney *et al.*, 1997).

#### *Pro-activeness*

Venkatraman (1989), has identified pro – activeness as seeking new opportunities which are related or not related with present line operations, introducing new products and brand fast than competitors and strategically eliminating operations which are in the mature or declining stages of life cycle. Further they has been sated that pro-activeness is central to innovative behavior which reflects a firm's inertia for exploiting emerging opportunities, experimenting with change, and mobilizing first-mover actions (Morgan & Strong, 2003). According to the Miles & Snow (1978), pro-activeness is continuously search for market opportunities, and

experimentation with potential responses to changing environmental trends. Further, initiative adopted by firms to continuously search for developing opportunities is pro-activeness (Slater & Narver, 1993).

*Riskiness*

Riskiness is extent of risks in decisions of various resource allocation as well as choice of products and markets (Venkatraman, 1989). Risk taking is an important factor in persuading entrepreneurship and this reflects organizational level risk than the individual level risk (Miller, 1987). According to Baird & Thomas (1990), riskiness is combining the entrepreneurial skills of constructive risk taking with opportunistic venture seeking is the objected strategic trait which firm demonstrates. Further, Baird & Thomas (1990) addresses that riskiness is combining the entrepreneurial skills of constructive risk taking with opportunistic venture seeking is the objected strategic trait which firm demonstrates.

III. RESEARCH FINDINGS

The majority of the sample comprised with female entrepreneurs (52%) and owner managers in the age group of 31-50 (72%). The highest education level of 54% of the sample was G.C.E. O/L while 40% had completed A/L. Surprisingly, 84% of the sample had no any professional qualifications.

The average level of overall entrepreneurial education was at a high level (3.9752) and the venture specific knowledge of the entrepreneurs was found to be the highest contribution to this with an average of 4.34. The average of overall level of strategic orientation of the studied sample was at a medium level (3.49) where futurity construct (3.85) was the highest contributor.

The Table-1 summarizes the results of simple linear regression and it confirms that specified regression model explains only 52.9% (R-square) of the total variation of strategic orientation.

The statistically significant (P<0.01) F-test confirms that the model is fitted well [Table-1 (b)]. As per the [Table -1 (c)], entrepreneurial education is a statistically significant (P<0.01) predictor of strategic orientation. Thus, the estimated model can be established as follows.

$$SO = 0.862 + 0.661EE$$

Accordingly, higher the level of entrepreneurial education, that will be resulted in an increase of strategic orientation by 0.66 per unit.

**Table -1 – SPSS Output of Simple Linear Regression**

<b>(a) Model Summary</b>							
R	R Square	Adjusted R Square	Std. Error of Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
<b>.727</b>	.529	.519	.27864	.529	53.826	.000	2.184
<b>(b) ANOVA</b>							
Model	Sum of Squares	Degree of Freedom	F	Significant			
Regression	4.179	1	53.826	0.000			
Residual	3.727	48					
Total	7.906	49					
<b>(c) Coefficients</b>							
Predictor	β0 Coefficients	Standard Error	Beta	Significant	Collinearity Statistic (VIF)		
Constant	0.862	0.361	0.727	0.021	1.000		
EE	0.661	0.090		0.000			

IV. CONCLUSION

This study was conducted to identify the levels of entrepreneurial education and strategic orientation and to identify the relationship between them based on 50 SMEs owner managers. The majority of the sample (80%) had high level of entrepreneurial education while 62% of sample moderate level of strategic orientation. Entrepreneurial education was found to be a statistically significant predictor of strategic orientation. This study informs the provincial level policy makers the direction they should take in designing and delivering the training programmes for future entrepreneur development initiatives.

## REFERENCES

- [1] Andrews K.R. (1971), *The concept of corporate strategy*, New York
- [2] Ansoff H.I., (1975), *Managing strategic surprise by response to weak signals*, California management review Baird I.S. and Thomas H., (1990), *Risk, strategy, and management*
- [3] Bing Liu, Zhengping Fu, (2011), *Relationship between EK and Strategic Orientation and Organizational Performance In Born Global: A Critical Review*, International Journal of Business and Management, Vol. 6, No. 3
- [4] Covin, J. G., GrEKn, K. M., & Slevin, D. P. (2006). *Strategic process effects on the entrepreneurial orientation–sales growth rate relationship*. Entrepreneurship Theory and Practice, 30(1), 57-81
- [5] Esteve A. E., Peinado S.L., & Peinado E. S. (2008), *Moderating Influences on the Firm's Strategic Orientation – Performance Relationship*, International Small Business Journal, Vol 26(4): 463 – 489
- [6] Gatignon H and Xuereb J. ( 1997), *Strategic Orientation of the Firm and New Product Performance*, Journal of Marketing Research, Vol. 34, No. 1
- [7] Grant J.H. and King W.R. (1982), *The logic of strategic planning*, Scott Foresman & Co
- [8] Hart S. and Banbury C., (1994), *How strategy-making processes can make a difference*, strategic management journal
- [9] Herath, H. M. A., & Mahmood, R. (2013). *Strategic orientation based research model of SME performance for developing countries*, Review of Integrative Business and Economics Research, 2(1), 430-440
- [10] Hitt, M. A., & Tyler, B. B. (1991). *Strategic decision models: Integrating different perspectives*, Strategic management journal, 12(5), 327-351
- [11] Lumpkin, G. T., & Dess, G. G. (1996). *Clarifying the entrepreneurial orientation construct and linking it to performance*. Academy of management Review, 21(1), 135-172.
- [12] Miles R.E. and Snow C.C. (1978), *Organizational strategy, structure, and process*, Academy of management
- [13] Miller K.D., (1992), *A framework for integrated risk management in international business* Journal of international business studies
- [14] Mitchelmore, (2013), *Entrepreneurial Competencies of Women Entrepreneurs Pursuing Business Growth*, Journal of Small Business and Enterprise Development, Emerald Group Publishing Limited, Vol. 20 No.1
- [15] Morgan R.E. and Strong C.A., (2003), *Business performance and dimensions of strategic orientation*, Journal of Business research
- [16] Murray J., (2012), *Organizational Innovativeness: The Role of Strategic Orientation and Environment Scanning*, School Of Management, Queensland University Of Technology
- [17] Packham, G., Jones, P., Miller, C., Pickernell, D., & Thomas, B. (2010). *Attitudes towards entrepreneurship education: a comparative analysis*. Education+ Training, 52(8/9), 568-586
- [18] Sehhat S., Ghanepasand F. and Fooman, (2014), *The Impact Of Entrepreneurs' Knowledge Dimensions On Sme Performance: A Study Of SMEs In Iran*, Academy Of Business & Scientific Research, Volume 3
- [19] Slater S.F. and Narver J.C., (1993), *Product-market strategy and performance: an analysis of the Miles and Snow strategy types*, European journal of marketing
- [20] Vesper K.H., & Gartner W.B., (1997), *Measuring Progress in Entrepreneurship, Education*, School Of Business Administration, Elsevier Inc
- [21] Wei, Y., & Guo, W. (2010). *Construction of the entrepreneurship education teachers based on the characteristics of business education level*. International Education Studies, 3(2), p91
- [22] Wiersema, M. F., & Bantel, K. A. (1992). *Top management team demography and corporate strategic cha*

## AUTHORS

**First Author** – Gamage P.G.M.S.K, Bachelor of Business Management in Entrepreneurship and Management, UvaWelassa University, sewwandikagamage20@gmail.com.

**Second Author** – W.M.P.G.C. Weerakoon, Lecturer, UvaWelassa University, and reschami@gmail.com.