Investigating the Moderation of Organizational Culture on the Relationship between Innovativeness, Reactiveness, and Risk-Taking Propensity with Business Performance: A Case of Pakistan

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Abstract
The present study investigated the role of core components of entrepreneurial orientation and its impact on business performance. The study examined how innovativeness, proactiveness, and risk-taking propensity can influence business performance in an emerging economy like Pakistan. Accordingly, the study also tested how organizational culture could moderate these relationships. Employees from a large national level organization from Karachi, Pakistan were sampled for the study. 300 questionnaires in total were distributed across the company out of which, 193 were received back. 31 questionnaires were discarded and 162 were taken for final analysis. Structural equation modeling results through using Smart PLS 2.0 revealed a positive relationship of all the three factors with business performance. More importantly, the study also found strong moderation of organizational culture on the hypothesized relationships. Findings, recommendations and contributions of the study are discussed in detail.

Keywords: Innovativeness, Reactiveness, Risk-taking Propensity, Business Performance, Organizational Culture, Moderation.

Introduction
Business performance is a serious issue for majority of the national operating enterprises in Pakistan (Hyder & Lussier, 2016). International report on overseas business risks has highlighted several issues pertaining to doing business in Pakistan and the critical performance pitfalls
across the country (Foreign & Commonwealth Office, 2015); hence pushing organizational scientists to shed urgent empirical attention. These evidences have asserted that emerging economy like Pakistan has the potential to improve and enhance but there is a need of evidences and responsive way outs to help the nation to uplift.

Principally, entrepreneurial orientation is the approach through which enterprises strategically revise themselves to pioneer market through proactiveness, innovation and risk taking (Miller, 1983). Past studies have related entrepreneurial orientation with numerous performance prospects (Coulthard, 2007; De Clerq & Ruis, 2007; Chow, 2006). Entrepreneurial orientation has becomes one of the most important component in entrepreneurship literatures. Principally, an entrepreneur is someone who is willing to take risks, and capable of collating resources to innovate (Carland, Hoy, & Carland, 1998; Schumpeter, 2002). Sadly there have been very little studies in Pakistan as to how entrepreneurial orientation can be of value (Ullah, 2013; Hafiz & Shariff, 2012); however, there are several business performance issues (Hyder, Azhar, Javaid, & Rehman, 2011; Hussain & Yaqub, 2010).

Hence the concept of entrepreneurial orientation outlines as to what extent a firm has the appropriate ingredients, necessary for nurturing entrepreneurship or entrepreneurial behavior to foster business performance. The current study has strived to empirically highlight and pinpoint how business performance could be potentially influenced through nurturing entrepreneurial orientation within the business.

The current study has strived to investigate the original conceptualization of entrepreneurial orientation by Miller (1983) and its three dimensions to explore their relationship and business performance.

**Literature Review**

**Innovativeness**

Schumpeter (2002) asserts that a true entrepreneurially genius is the one who has the capability of experimenting combinations of new process, resources and activities in order to bring about a responsively unique feature. This in simple terms is called Innovativeness. Lumpkin and Dess (1996) explains that innovativeness expresses the potential of a business/firm to involve and facilitate novel ideas and encourage experimentation and creativity processes to result in new products, services or technological advancements. According to Lee, Lim and Pathak (2011), the culture of innovativeness is important for induce entrepreneurial orientation. Study by Kyrigidou & Spyropoulou (2013) concluded significant impact of innovativeness on performance outcomes both, at the individual as well as at the organizational levels. Fairlie & Holleran (2012) have also underlined that innovativeness brings organizations to encourage best brains to think and come up with ideas that could promise competitive success in the long run. Study by Acar and Acar (2012) and Tsai and Yang (2013) have underlined significant relationship between innovativeness and business performance. However, there is little known as to what measure and length the component is of similar importance for business performance (Hassim, Asmat-Nizam & Bakar, 2011). Particularly in emerging economy such as Pakistan, there very little is known as to how innovativeness influences business performance in Pakistan. However, based on the past evidence, the current study tests the following hypothesis:
H1: Innovativeness will be positively related with Business Performance

Proactiveness

The term principally refers to the element of pioneering. In other words, it talks about taking initiative in the awake of new opportunities (Lumpkin & Dess, 1996). Organizations that are proactive in nature have an eye for detail and are always in a look for new avenues and opportunities. According to Wiklund and Shepherd (2005), proactiveness can help organizations to create a first mover advantage which further helps in gaining sizeable market share. Fairoz et al., (2010) that there are risks involved when an organization shows proactiveness as it is not necessary that the new ideas or implemented plan would work for sure. Particularly, Kraus, Rigtering, Hughes and Hosman (2012) have indicated that there is a dire need for businesses to be proactive so that they could handle the market and strategy tactics of big companies. Callaghan and Venter (2012) has underlined that emerging economies need to focus more on proactiveness so that they could handle tough competition. Thus, we assert that proactiveness would yield better results towards business performance in Pakistan.

H2: Proactiveness will be positively related with Business Performance

Risk-Taking Propensity

Becoming an entrepreneur, the organization needs to be risk taking since when organization strive to experiment new ventures, they at times fail and hence have to face the consequences (Lumpkin & Dass, 1996). According to Carland, Carland & Stewart (2015), the enigma of entrepreneurship lies in risk taking. Organizations willing to development entrepreneurial orientation to foster business success need to work on building risk taking propensity. Risk taking propensity has been positively associated with numerous outcomes (Davis, Marino & Vecchiariini, 2013; Yan-ming & Zhang, 2013). In the views of Gartner and Liao (2012) organizations willing to take risks in their entrepreneurial efforts often end in gaining competitive advantage and venture success. Parallel to big enterprises, research studies also indicate towards the importance of risk taking propensity for businesses of all types (Brettel, Chomik, & Flatten, 2015; Huybrechts, Voordeckers & Lybaert, 2012). It would be therefore interesting to see how this component of EO is perceived in Pakistan. Thus, the following hypothesis is formulated to see how risk-taking propensity influences on business performance in Pakistan

H3: Risk-Taking Propensity will be positively related with Business Performance

Organizational Culture

Denison (1984) indicated towards the importance of organizational culture towards predicting performance prospects. According to the author, organizational culture is the system od norms and values that are shared similarly amongst the workforce. This may include attitudes, work approaches, organizational working and problem solving. Ahmad, Loh, and Zairi (1999) stated organizational culture as a set of values through which major business operations and procedures are performed. Regarding the significance of the topic, organizational culture is considered the most important, when research focuses on organizational behavior. In connection to performance, organizational culture has a major impact on performance outcomes (Deal & Kennedy, 1982; Holmes & Marsden, 1996).

Moderation of Organizational Culture
On the basic grounds, it is understood that the aspects of entrepreneurial orientation may impact differently across different organizations (Slater & Olson, 2001; Rumelt et al., 1994). According to Zahra (1993), performance is multidimensional which according to Lumpkin and Dass (1996) brings out different results in different organizational set ups. Hence the variation of cultural mix of an organization could potentially influence. On the similar pattern, studies including (Prajo & McDermott, 2005; Sila & Ebrahimpour, 2002; Zahra & Garvis, 2000) have also recommended for the potential moderating influence of organizational culture. Furthermore, the current study has indicated towards the moderation of organizational culture on the premise of contingent theory (Schuler, 2000) which asserts that relationship between the two variables is contingent or relies upon the influence of third variable. Based on this, it is asserted that inclusion of the moderator variable in the relationship between Innovativeness, proactiveness, and risk-taking propensity may outline contingent relationships. Henceforth, the following hypotheses are formulated:

**H4:** Organizational culture will moderate the relationship between innovativeness and business performance

**H5:** Organizational culture will moderate the relationship between proactiveness and business performance

**H6:** Organizational culture will moderate the relationship between risk-taking propensity and business performance

**Methodology**
Quantitative techniques were deployed to investigate innovativeness, risk-taking propensity, and proactiveness relationship with business performance followed by the moderation of organizational culture.

**Sampling and Study Population**
Employees from a large national level enterprise, headquartered in Karachi were targeted for the purpose of primary data collection. According to the company, it employed 327 employees across its three retail distribution centers, four regional offices and one head office (Personal Communication, 2016).

**Sampling Technique**
Krejcie and Morgan (1970) table suggested the sample of 175 minimum respondents for the current study. 300 questionnaires were distributed through random sampling technique during the month of April, 2016. 193 were received back out of which, 31 were found incomplete. Hence, 162 questionnaires were used for final data analysis.

**Instrumentation**
Business performance was measured through 7-item scale by Jowarski and Kohli (1993). Accordingly, innovation was assessed through 5-item scale by Hurley and Hult (1998). Parallel to this, Proactiveness was measured through 5-item scale by Covin and Slevin (1989) and Risk-taking propensity was assessed through 3-item scale by Lim and Envick (2011). The moderation of organizational culture was assessed through 18-item scale by Denison (2000).

**Respondent`s Demographics**
Out of the total (162), 117 (72.2 percentage) respondents were male and 45 (27.7) were female. Furthermore, 49 (30.2 percent) reported to have Masters Qualification while, 72 (44.4 percent) mentioned bachelors and remaining 41 (25.4 percent) reported as high school graders. Majority 114 (83 percent) reported to have more than 5 years of work experience and remaining 48 (29.6 percent) reported lesser than five.

Data Analysis and Findings
Hypothesized relationships were tested through using structural equation modeling through using SmartPLS 2.0 (Ringle, Wende, & Sarstedt, 2005). For the purpose of assessing external and internal consistency reliability, individual item reliability, measurement model of the study was analyzed. Furthermore, structural model was assessed in order to ensure convergent and discriminate validity and R-square values which is necessary to find the relationship among the variables and significance of path coefficients.

Measurement Model
Psychometric properties are assessed in the measurement model whereby, reliability of the individual items is examined. Hair et al., (2014) have recommended it on a stronger note and have suggested loading of 0.50 at the minimum level. Henceforth, items with loading less than 0.5 were effectively deleted which accounted 12 items in total.

Table: Measurement Model

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Loadings</th>
<th>AVE</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>INNOVATION</td>
<td>INO</td>
<td>0.75463</td>
<td>0.5249</td>
<td>0.84422</td>
</tr>
<tr>
<td></td>
<td>INO</td>
<td>0.62707</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>INO</td>
<td>0.79885</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>INO</td>
<td>0.8326</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROACTIVENESS</td>
<td>PR</td>
<td>0.8963</td>
<td>0.79945</td>
<td>0.75309</td>
</tr>
<tr>
<td></td>
<td>PR</td>
<td>0.58162</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR</td>
<td>0.63483</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RISK TAKING</td>
<td>RT</td>
<td>0.84734</td>
<td>0.67874</td>
<td>0.86347</td>
</tr>
<tr>
<td></td>
<td>RT</td>
<td>0.85288</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RT</td>
<td>0.84699</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUSSINES PERFORMANCE</td>
<td>BP</td>
<td>0.642</td>
<td>0.58066</td>
<td>0.87306</td>
</tr>
<tr>
<td></td>
<td>BP</td>
<td>0.77317</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP</td>
<td>0.81357</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP</td>
<td>0.76249</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

www.hrmars.com
Hair et al., (2011) and Bagozzi and Yi have suggested that composite reliability should not be less than 0.7 for each variable. The above table underlines that all the variables have resulted in sufficient composite reliability. Parallel to this, the AVE should be 0.5 or above as per the recommendations of Chin (1998).

**Discriminant Validity**

Farnell and Larcker (1981) have suggested that the assessment of Average Variance Extracted (AVE) is necessary whereby; the square root of AVE should be greater than all of its correlations. Table 2 highlights significant AVE results hence, the study has resulted in significant convergent and discriminant validity.

### Table 2: Discriminant Validity

<table>
<thead>
<tr>
<th>Latent Variable Correlations</th>
<th>BP</th>
<th>PR</th>
<th>INO</th>
<th>OC</th>
<th>RT</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR</td>
<td>0.114834</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INO</td>
<td>0.625476</td>
<td>0.0768</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OC</td>
<td>0.666009</td>
<td>0.062102</td>
<td>0.545205</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RT</td>
<td>0.279233</td>
<td>-0.10455</td>
<td>0.259017</td>
<td>0.31682</td>
<td>0.92923</td>
</tr>
</tbody>
</table>

**Structural Model**
The assessment of structural model was done through bootstrapping procedure with 500 samples in order to obtain t-values. Table 3, elaborates the results of the tested hypothesis in this regard.

Table 3: Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Beta</th>
<th>Standard Error</th>
<th>T-Value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>INO -&gt; BP</td>
<td>0.531691</td>
<td>0.08675</td>
<td>6.12898</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>PR -&gt; BP</td>
<td>0.270634</td>
<td>0.044114</td>
<td>6.13482</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>RT -&gt; BP</td>
<td>0.270634</td>
<td>0.044114</td>
<td>2.315597</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>INO * OC -&gt; BP</td>
<td>0.377078</td>
<td>0.053307</td>
<td>6.480243</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>PR * OC -&gt; BP</td>
<td>0.345443</td>
<td>0.053307</td>
<td>6.480243</td>
<td>Supported</td>
</tr>
<tr>
<td>H6</td>
<td>RT * OC -&gt; BP</td>
<td>0.380994</td>
<td>0.089296</td>
<td>4.266639</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table 3 clearly indicates a positive relationship between innovation and business performance ($\beta=0.531$, $p<0.01$). Similarly, the study also outlined positive relationship between risk-taking propensity and business performance ($\beta=0.270$, $p<0.01$). In connection to proactiveness, the study has also found significant relationship between organization’s proactive attitude towards entrepreneurial activities and business performance ($\beta=0.25$, $p<0.01$). Hence, all the three aspects of entrepreneurial orientation have resulted to positively influence business performance.

In connection to the moderation of organizational culture among the three relationships based on the recommendations of Baron and Kenny (1986); the structural model results have outlined...
significant moderation. The results have reported the moderation of organizational culture on the relationship between innovation and business performance ($\beta=0.377$, $p<0.01$); risk-taking propensity and business performance ($\beta=0.345$, $p<0.01$), and risk-taking propensity and business performance ($\beta=0.380$, $p<0.01$). Thus, the current study has reported significant moderation of organizational culture on all three relationships. The r-square of the current study is 0.54 which means 54 percent of variance could be explained by the proposed variables. Figure 1 elaborates further:

**Discussion**

The objective of the current study was to investigate the role and impact of core component of entrepreneurial orientation, as conceptualized by Miller (1983) on business performance. Accordingly, the study also aimed to test the moderation of organizational culture on the innovation, proactiveness, and risk-taking propensity relationship with business performance. The study found that conceptualization of entrepreneurial orientation is critical for fostering business performance. The study highlighted that organizations supporting and facilitating innovation practices, they tend to encourage employees to bring advancements that could help them in gaining edge over the rivals thus, positively influencing business performance. This can be seen in line with the results of Acar and Acar (2012) and Tsai and Yang (2013), who reported positive association and enhancement of business performance with nurturing innovation within the organization.

The results suggest that similar to these developed economies, innovation is also critical for emerging economies like Pakistan to boost their performance. Moving further, the current study has also elaborated positive relationship between proactiveness and business performance. The results have testified the explanations of Wiklund and Shepherd (2005) who underlined that proactiveness help organizations to capitalize on first hand opportunities and gain first mover advantage; which on a major course results in furthering business performance. It also explains and makes organizational scientists and practitioners to realize the dire need for businesses to be proactive in the highly competitive market, as indicated by Kraus, Rigtering, Hughes, and Hosman (2012). This also again, enlightens to understand the significance of proactiveness for business performance in Pakistan.

The study has also found that risk-taking propensity also significantly influences business performance. This explains the empirical results of Gartner and Liao (2012) who asserted that risk-taking propensity helps businesses to gain competitive advantage which can only occur through enhancing business performance. The current study has highlighted the prominence of this factor of entrepreneurial orientation in the emerging economy like Pakistan.

Alongside this, the current study, under the domain of contingent theory (Schuler, 2000). The theory asserted that the relationship between two variables is contingent and hence relies upon the influence of the third variable. The study findings strengthen the elaboration of contingent theory with the moderation of organization culture on the innovativeness, proactiveness, risk-taking propensity, and business performance relationships.

The findings have outlined that employees` perception about innovativeness, proactiveness, and risk-taking propensity can be enhanced with positive and supportive organizational culture. This also furthers the results of previous scholars (Deal & Kennedy, 1982; Holmes & Marsden,
1996). Henceforth, organizations with conducive and positive organizational culture can remarkably boost the influence of its innovativeness, proactiveness, and risk-taking propensity to influence business performance. Conclusively, the study reports critical significance of organizational culture for fostering of entrepreneurial orientation as well as maximizing their influence to yield better performance at the business level. The findings suggest that employees that view organizational to be healthy would be more responsive and responsively utilize upon entrepreneurial features.

**Contributions of the Study**

The current study has several contributions and the explanation of contingent theory is one of them. The study has further enhanced and verified the explanation of the theory through testing the moderation of organizational culture. The study has also contributed through highlighting the importance of innovativeness, reactiveness, and risk-taking propensity in their relationship with business performance. More importantly, the study has contributed towards indicating the potential moderating role of organizational culture on the hypothesized relationships.

The study has contributed towards the body of knowledge by concluding that responsive organizational culture can foster the development and utilization of innovativeness, reactiveness, and risk-taking potential to foster business performance. Parallel to this, the study has outlined significance of all undertaken factors in fostering business performance in emerging economies like Pakistan. On a more notable ground, the current study has underlined how business performance issues highlighted by numerous studies and reports regarding Pakistan could be improved through entrepreneurial orientation.

The study has also contributed through addressing the scarcity of research on entrepreneurial orientation and business performance relationships in Pakistan. The study has also outlined that the explanation of Miller (1983) on the notion of entrepreneurial orientation is effective for every type of market and economy including Pakistan.

The study has forwarded encouraging results to suggest that entrepreneurial orientation could be of great value especially for emerging economies like Pakistan to maximize their business performance and therefore, organizations could work on these factors followed by nurturing organizational culture that could help them to achieve better business performance prospects at large.

**Conclusion, Limitations, and Recommendations**

The study has adequately achieved its core objectives through examining the role of core entrepreneurial orientation factors including innovativeness, reactiveness, and risk-taking propensity in their relationship with business performance.

Alongside the study also successfully tested and found healthy results of the moderation of organizational culture on these variables. The study was conducted through sampling employees from a single large scale national enterprise in Pakistan thus, limiting the generalizability of the results.

The study therefore, suggests conducting further research on the topic, sampling more companies. Additionally, the study also suggests conducting longitudinal study on the topic to
examine and further establish the moderation of organizational culture upon variables and their influence on business performance. On a broader level, the moderation of organizational may also be tested on the extended factors of entrepreneurial orientation, as suggested by Lumpkin and Dass (1996).

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References


