MANAGEMENT DYNAMICS
A Peer-reviewed Journal of Management and Economics
Published by
Shanker Dev Campus
Tribhuvan University, Nepal

Entrepreneurial Orientation and Business Performance of SMEs in Kathmandu

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Article Info:
Received: 25 May 2023
Revised: 05 July 2023
Accepted: 21 Oct. 2023

DOI: https://doi.org/10.3126/md.v26i2.72290

Keywords:
Autonomy, Risk Taking, Networking, Pro-activeness, Innovation, SMEs Business Performance

ABSTRACT

The study examines the impact of entrepreneurial orientation (EO) on the performance of small and medium-sized enterprises (SMEs) in Kathmandu. It emphasizes the key role of entrepreneurial orientation components such as autonomy, risk-taking, networking, pro-activeness, and innovation in shaping business performance. In this study, descriptive and causal-comparative research design has been utilized. The data was collected from 400 SMEs using structured questionnaires. The findings reveal that autonomy, risk-taking, networking, and innovation have significant positive effects on SME performance, with networking showing the strongest impact. However, pro-activeness did not significantly influence performance. These insights suggest that fostering autonomy, encouraging risk-taking, building strong networks, and promoting innovation are crucial for enhancing the business performance of SMEs. The study underscores the need for SMEs in Kathmandu to encircle entrepreneurial characteristics to continue competing and achieve sustained growth in a globalized environment.

1. INTRODUCTION

Small and medium-sized business (SMEs) success depends on entrepreneurial mentality because entrepreneurship has become an essential part of economies. Many nations worldwide, especially those with growing economies, depend heavily on small and medium-sized enterprises (SMEs). Globalization has decreased economies of scale, but it has improved the growth potential of SMEs (Alam et al., 2022). Small and medium-sized businesses (SMEs) are essential for both developed and developing nations' economies to grow and thrive (Fatoki, 2014). However, SMEs confront various difficulties, including scarce resources, a lack of access to financing, and a lack of management expertise (Nasir et al., 2018). It is not always easy to determine how EO affects business performance. Some studies have discovered no connection, or perhaps a conflict, between EO and business performance (Gyanwali & Bunchapattanasakda, 2019).

Additionally, several factors, such as environmental factors, organizational factors, and personal characteristics, have an impact on the entrepreneurial orientation of SMEs. However, the specific elements that affect the entrepreneurial orientation of SMEs in Kathmandu and how these aspects affect business performance have not been thoroughly studied (Bhandari & Amponstira, 2021). This shows that other factors may moderate or mediate the relationship between EO and business performance may be moderated or mediated by other factors. Additionally, fewer studies have been done in poor nations on the relationship between EO and corporate performance (Fatoki, 2014).

Therefore, research into the variables that affect SMEs' entrepreneurial orientation in Kathmandu and how these variables affect business success is necessary. Furthermore, while studies have shown that having an entrepreneurial mindset can improve a company's performance, few have looked at how innovation may mediate this link (Paudel, 2020). Innovativeness, risk-taking, and proactiveness are characteristics of entrepreneurial orientation that are associated with the performance of businesses. As a result, it is crucial to increase the level of entrepreneurship and encourage existing SMEs to adopt an entrepreneurial mindset. This will demonstrate their aptitude for innovation, initiative, and risk-taking, all of which are crucial for the success of local SMEs (Adebiyi et al., 2019).

Because of globalization, small and medium-sized firms (SMEs) are under increased pressure from global competition. When paired with the evolving complexity of customers worldwide, it becomes apparent that SMEs face rising difficulty in maintaining and improving their performance over time unless they can actively tackle these challenges. It is even more evident that during economic and environmental upheaval periods, businesses experience particularly high levels of market volatility and challenging business uncertainty, compelling them to adapt to such change. Since the global business environment is frequently extremely competitive, businesses must be proactive and can compete in other markets. Researchers (Spio-Kwofie, et al., 2018).

According to numerous research (Rauch et al., 2009; Wiklund & Shepherd, 2003), Entrepreneurial Orientation (EO) is favorably correlated with several business success indicators, including financial performance, growth, and survival. Since SMEs frequently have few resources and must be highly entrepreneurial to survive and expand, EO is particularly significant for them (Wiklund & Shepherd, 2005). The objective of the research is to examine the effect of entrepreneurial orientation on the business performance of SMEs.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Business Performance

Performance is described as "the assessment of the outcomes of a particular behavior in a particular situation" (Alam et al., 2022). It is also thought of as the result of any activity or the conclusion of any action. Business performance advises that to improve the quality of the explanation of the findings, research should use both financial and nonfinancial measurement constructs, which incorporate all the components of company performance. In the entrepreneurship literature, measuring financial performance is typically operationalized in terms of firm growth (Spio-Kwofie et al., 2018). An important topic in entrepreneurship research is measuring the performance of SMEs since it enables academics and business professionals to investigate and identify strategies for advancing SMEs' growth and economic impact (Alam et al., 2022).

Innovation

An entrepreneurial orientation must include innovation since it demonstrates how seriously organizations take the search for new opportunities. Innovation demonstrates a fundamental willingness to depart from accepted practices or technology and advance the state of the art (Baker & Sinkula, 2009). Innovation and entrepreneurship are pertinent in a variety of sustainable business scenarios. They are essential to the success of new businesses that offer creative responses to societal or environmental problems. Innovation and entrepreneurship are also very important for well-established businesses. Particular attention has been paid to innovative entrepreneurship at a time when policymakers are combining efforts to restore growth and overcome the global economic and financial crisis, as it can play a significant role in fostering economic growth, job creation, and poverty reduction and can help address key issues. Innovation is the capacity of a vendor to imaginatively spark and support new ideas, experiments, and creative processes that may result in the creation of new goods, services, technological improvements, or the exploitation of new markets (Li, 2012).

H_1: There is a significant relationship between innovation and the business performance of SMEs.

Networking

Business people and entrepreneurs engage in networking, a socioeconomic business activity, to build business contacts, identify, generate, or take advantage of business opportunities, share information, and look for potential partners for enterprises. The best method for generating recommendations and establishing a long-lasting, prosperous firm is through business networking. Referrals obtained through networking are typically pre-qualified and

usually industry specialists. Taking action on these leads and converting them into customers makes it easier to accomplish company objectives. Compared to conventional techniques of marketing, networking leads are frequently far more inventive. The main advantage of networking is corporate growth, but there are numerous other advantages as well (Taylor, 2013).

H_2: There is a significant relationship between networking and the business performance of SMEs.

Pro-activeness

Instead of only adapting to a situation or just reacting, proactive action entails acting ahead of future circumstances (Solikhan & Mohammad, 2019). It is a chance-seeking, forward-looking outlook distinguished by the introduction of new goods and services ahead of rivals. A focus on entrepreneurship to create proactive innovations (Baker & Sinkula, 2009). Proactive habits are not only reserved for extra-role performance. Successful entrepreneurship involves a variety of abilities. Planning is one of the most important aspects of being an entrepreneur. We ought to be aware of our affairs both within and outside the home. The reality of being an entrepreneur is that many factors are outside our control. But if we take the initiative, we can still exert some control (Miller, 1983). Instead of simply reacting to a circumstance or waiting for anything to happen, it implies taking initiative and making things happen (Taylor, 2013).

H_3: There is a significant relationship between pro-activeness and the business performance of SMEs.

Autonomy

The ability to make an informed, non-coerced decision is what autonomy is. Organizations or institutions that are autonomous are independent or self-governing (Alam, et al., 2022). From the human resources standpoint, autonomy can also be described as the degree of discretion given to a person in their work. Research on entrepreneurial motivation and happiness, as well as several cultural trends that support greater self-reliance, all point to the significance of autonomy (Taylor, 2013).

H_4: There is a significant relationship between autonomy and the business performance of SMEs.

3. RESEARCH METHODS

A descriptive and causal-comparative research design has been employed, leveraging quantitative methods to explore patterns. The population for this study consists of entrepreneurs operating small and medium-sized enterprises (SMEs) in Kathmandu Metropolitan City, Bagmati Province, Nepal. Purposive sampling, a non-probability sampling method, has been utilized to select participants. This method involves selecting individuals who are readily accessible and willing to participate, rather than using random or systematic sampling techniques. Out of 417 questionnaires distributed, 400 valid responses has collected. Primary data was collected through structured questionnaires distributed to entrepreneurs of SMEs in Kathmandu. The questionnaire has divided into two main sections: the first section gathered demographic information such as age, gender, education level, and

work experience, while the second section included Likert scale questions addressing the dependent and independent variables.

The collected data was initially input into Microsoft Excel and subsequently exported to IBM SPSS Statistics 26 for statistical analysis. The analysis included both descriptive and inferential statistics. Reliability has been assessed using Cronbach's alpha, a common method for evaluating the consistency of survey instruments (Scherbaum & Shockley, 2011). The reliability test was conducted using SPSS, and the results indicated that all variables had Cronbach's alpha values above 0.70, signifying acceptable reliability (Peter & Churchill Jr, 1986). Correlation analysis was conducted to examine the relationships between the independent and dependent variables of the study. Multiple regression analysis (MRA) was then employed to assess the statistical significance of these relationships and test the proposed hypotheses. The use of SPSS software facilitated the execution of these analyses, providing insights into the impact of entrepreneurial orientation on business performance. Formulated on the proposed research model, the statistical multiple regression model has developed as follows:

$$Y= \alpha_1 +\beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+ \beta_5X_5+ei$$

Where,

α_1= Constant intercept of the regression and β_1, β_2, β_3, β_4 are the coefficient of regression, Y = Business performance of SMEs, X_1= Autonomy, β_1=Coefficient of autonomy, X_2= Networking, β_2=coefficient of networking, X_3= Pro-activeness, β_3 = coefficient of pro-activeness, X_4= Innovation, β_4= coefficient of innovation, X_5= Risk-taking, B_5= Coefficient of risk-taking, ei= Error term

Correlation Analysis

Table 1

Correlation Analysis

	Business performance of SMEs	Autonomy	Networking	Pro-activeness	Innovation
Business performance of SMEs	1				
Autonomy	.631** (0.000)	1			
Networking	.543** (0.000)	.700** (0.000)	1		
Pro-activeness	.467** (0.000)	.526** (0.000)	.636** (0.000)	1	
Innovation	.506** (0.000)	.579** (0.000)	.540** (0.000)	.539** (0.000)	1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 1 indicates that all the independent variables have a positive and significant correlation with the dependent variable, business performance of SMEs. This means that higher levels of autonomy, risk-taking, networking, pro-activeness, and innovation are associated with higher levels of business performance in SMEs. The strongest correlation is between the risk-taking and business performance of SMEs (0.638), while the weakest correlation is between pro-activeness and business performance of SMEs (0.467).

The value of the correlation coefficient between autonomy and business performance of SMEs is 0.631. This shows that there is a positive and strong relationship between the two variables. This indicates that as autonomy increases, business performance of SMEs also increases, and vice versa. Similarly, the value of the correlation coefficient between risk-taking and business performance of SMEs is 0.638. It indicates that there is a positive and strong relationship between the two variables. This shows that as risk-taking increases, the business performance of SMEs also increases, and vice versa.

Likewise, the value of the correlation coefficient between networking and business performance of SMEs is 0.543. This value indicates that there is a positive and moderate relationship between the two variables. This shows that as networking increases, the business performance of SMEs also increases, but not as much as autonomy or risk-taking, and vice versa. Likewise, the value of the correlation coefficient between pro-activeness and business performance of SMEs is 0.467. This means that there is a positive and moderate relationship between the two variables. This indicate that as pro-activeness increases, business performance of SMEs also increases, but not as much as networking, and vice versa. Lastly, the value of the correlation coefficient between innovation and business performance of SMEs is 0.506. This shows that there is a positive and moderate relationship between the two variables. This indicate that as innovation increases, the business performance of SMEs also increases, but not as much as pro-activeness, and vice versa.

Regression Analysis

Table 2

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.860[a]	.739	.734	.49364

a. Predictors: (Constant), IN, RT, AU, NW, PA

Table 2 provides the Model Summary of the regression analysis conducted on the relationship linking with the independent variables (Autonomy, Risk Taking, Networking, Pro-activeness, and Innovation) and the dependent variable (SME business performance). In this model, R Square is 0.860, meaning that approximately 86.00% of the variance in SME business

performance can be explained by the independent variables. Adjusted R Square accounts for several predictors in the model and adjusts for the sample size. The adjusted R Square in this model is 0.739, indicating that around 89.4% of the variance in SME business performance can be demonstrated by the independent variables, considering with number of predictors and sample size.

Table 3
ANNOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	270.619	5	38.660	158.652	.000[b]
Residual	95.521	394	.244		
Total	366.140	399			

a. Dependent Variable: SME

b. Predictors: (Constant), IN, RT, AU, NW, PA

Table 3 presents the ANOVA (Analysis of Variance) results for the regression model conducted on the impact of the independent variables (Autonomy, risk-taking, Networking, Pro-activeness, and Innovation) on the dependent variable (SME business performance). In this study, the p-value is .000, which is less than the typical significance level of .05. Thus, the regression model is considered statistically significant.

Table 4
Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.310	.134		2.316	.021
AU	.321	.043	.343	7.381	.000
RT	.131	.052	.119	2.512	.012
NW	.424	.056	.380	7.522	.000
PA	.056	.035	.054	1.610	.108
IN	.123	.034	.116	3.582	.000

a. Dependent Variable: SME

Table 4 displays the coefficient estimates for the regression model conducted on the impact of the independent variables (Autonomy, Risk-taking, Networking, Pro-activeness, and Innovation) on the dependent variable (SME business performance). Among the independent variables, Autonomy (AU), Risk-taking (RT), Networking (NW), and Innovation (IN) have statistically significant coefficients with p-values of .012, .000, .108, and .000, respectively. These variables contribute significantly to explaining SMEs Business performance. Pro-

activeness (PA) does not have a statistically significant coefficient (p-value > .05) suggesting it may not have a significant impact on the dependent variable.

The value of the coefficient of autonomy is 0.321, which means that for every one-unit increase in autonomy, the average business performance of SMEs increases by 0.321 units. Similarly, the value of the coefficient of risk-taking is 0.131, which means that for every one-unit increase in risk-taking, the average business performance of SMEs increases by 0.131 units. In the same way, the value of the coefficient of networking is 0.424, which means that for every one-unit increase in networking, the average business performance of SMEs increases by 0.424 units. Likewise, the value of the coefficient of pro-activeness is 0.056, which means that for every one-unit increase in pro-activeness, the average business performance of SMEs increases by 0.056 units. The coefficient of innovation is 0.123, which means that for every one-unit increase in innovation, the average business performance of SMEs increases by 0.123 units.

4. RESULTS AND DISCUSSIONS

Risk-taking also has a statistically significant impact on SME performance. This result reinforces the established notion in entrepreneurship literature that risk-taking is a critical factor in business success (Alam et al., 2022). Entrepreneurs who are willing to take calculated risks are often able to capitalize on opportunities that others may avoid, leading to competitive advantage and business growth. Networking demonstrates the strongest impact on SME performance. Although the p-value is slightly above the traditional significance threshold, it suggests a meaningful influence. Networking is crucial for business growth and success, particularly in SMEs, where resources are often limited (Taylor, 2013). The literature emphasizes that business networking facilitates access to new markets, collaborations, and information, which are essential for enhancing business performance (Taylor, 2013).

Innovation has been found that there was significantly influence SME performance. In line with existing literature, innovation is a cornerstone of entrepreneurship, driving the development of new products, services, and processes that can distinguish an SME from its competitors (Baker & Sinkula, 2009; Li, 2012). Interestingly, pro-activeness does not have a statistically significant impact on business performance. This finding contrasts with the theoretical assumption that pro-activeness, characterized by a forward-looking and opportunity-seeking mindset, is a driver of SME success (Baker & Sinkula, 2009).

5. CONCLUSION AND IMPLICATIONS

The study concludes that certain entrepreneurial characteristics play a pivotal role in enhancing the business performance of SMEs. Specifically, Autonomy, Risk-taking, Networking, and Innovation significantly contribute to improving SMEs' performance, as indicated by their positive and statistically significant coefficients. Among these, Networking and Autonomy have the most substantial influence, highlighting the importance of strong connections and independent decision-making in driving business success.

In contrast, Pro-activeness does not have a significant impact on performance, suggesting that merely being forward-looking or anticipatory may not be enough to boost outcomes. These findings suggest that SMEs should prioritize fostering autonomy, encouraging calculated risk-taking, building strong networks, and fostering innovation to enhance their overall performance and growth. Policymakers and business advisors can use these insights to design targeted interventions to support SMEs in these key areas.

Likewise, the positive relationship between risk-taking and performance is consistent with the idea that entrepreneurship inherently involves risk and those willing to embrace it often experience better business outcomes. The entrepreneurial context shows that networking leads to innovation, customer acquisition, and improved competitiveness, which may explain the strong coefficient observed.

The findings emphasize the importance of fostering autonomy, encouraging risk-taking, expanding networking efforts, and promoting innovation within their business strategies. These factors have been shown to significantly influence business performance, indicating that SMEs should focus on creating environments that empower employees to make independent decisions, take calculated risks, and engage in creative problem-solving. Building strong networks is also critical, as it provides access to valuable resources, knowledge, and opportunities.

In addition, this study highlights the need for supportive frameworks that encourage entrepreneurial activities, such as networking events, innovation grants, or initiatives promoting risk-taking. Tailored policies that enhance SMEs' capacity to innovate and connect with broader markets can lead to improved business outcomes and contribute to economic development.

Business advisors and consultants can also draw from these findings when guiding SMEs, directing their focus toward practical strategies that boost autonomy and networking while fostering a culture of innovation and strategic risk-taking. By leveraging these factors, SMEs are better positioned to enhance their performance and achieve sustainable growth.

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