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Mediating Effect of Innovation on the Relationship between Entrepreneurial Orientation and Organizational Performance of SMEs in Southern Province, Sri Lanka

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Abstract

Entrepreneurial Orientation is widely used to determine the entrepreneurial behavior of an entrepreneur. Although, the Entrepreneurial Orientation (EO) is recognized as a key determinant, yet there are many inconsistencies in the nexus between EO and Organizational Performance (OP). Organizational innovation was considered as the mediating variable to address the empirical gap. The study was based on small and medium scale manufacturing enterprises established in Southern Province of Sri Lanka. 240 questionnaires were administered for the purpose of primary data. A strong positive relationship between entrepreneurial orientation and organizational performance was confirmed by the study among the manufacturing SMEs in southern Sri Lanka. The study underlined entrepreneurial orientation as one of the main elements of organizational capability to achieve competitive advantage, growth, and success. More, the study confirms an indirect effect in the nexus between EO and OP via organizational innovation. Practitioners are advised to understand the capability of organizational innovativeness and proactiveness. Also, entrepreneurs and strategic formulation bodies are needed to create an innovative entrepreneurial culture to enhance entrepreneurial capabilities and minimize the potential risk of entrepreneurs.

Keywords-: Entrepreneurial Orientation, Manufacturing Sector, Organizational Performance, Small and Medium Scale Enterprises

1 INTRODUCTION

Small and medium scale businesses are playing a dramatic role in the economic development of any country. It contributes largely to the Gross Domestic Product (GDP) by participating in the mainstream economy, becoming a source of income to a substantial portion of the population by providing opportunities for large number of employments (Department of Census & Statistics, 2017). According to the National Policy Framework for Small and Medium Enterprises (SMEs) Development in Sri Lanka (NPFSME) (2015), The Government of Sri Lanka recognizes small and medium scale enterprises (SMEs) as the backbone of the economy due to the contribution SMEs to regenerate and accelerate the economic development of the country. It accounts for more than 75% of the total number of enterprises are SMEs, provides 45% of the employment opportunities and contributes to the 52% of the GDP by the SME sector (NPFSME, 2015).

No consensus definition to define SMEs as different countries and institutions look at SMEs on different angles (Sriyani, 2019). Therefore, there is no any unique definition to recognize SMEs worldwide. Most of the time, definition of SMEs varies because of the diversity of the tasks they performed. Every definition of SMEs is subjected to criticism and there is no generally accepted definition (Gajanayake, 2010). Many organizations are using the number of employment opportunities generated within the business as the parameter to categorize SMEs. Based on the number of employment opportunities, European Union considered SMEs as the enterprises which has employees between 200-250; Japan defined SMEs using employment opportunities having less than 300, and USA considered SMEs as the business enterprises which is having less than 500 employees (Sriyani, 2019).

Usually, small business management is facing many challenges in the modern business' environment (Gamage, 2003). According to Gamage (2003), tough competition, rapidly changing new technologies and globalization of products and services are the main causes for these challenges. The study further explains that comparing to the other countries in the region, the contribution of SMEs to the Sri Lankan economy is very low. Although almost all the governments came into power since independence, have identified the importance of developing SME sector in Sri Lanka, it still shows a slow growth (Gamage, 2003).

Entrepreneurial Orientation (EO) is one of the most widely used constructs to assess entrepreneurial behavior of any firm which refers to the strategic posture of firms in terms of risk-taking, innovativeness, and proactiveness (Covin and Lumpkin, 2011; Lumpkin & Dess, 1996). The concept of EO emerged in the 1970s (Edmond and Wiklund, 2010) and it has been extensively discussed in many studies to understand the scope of EO and importance for

business development (Wales, 2016). Scholars have found the EO as a pivotal factor reflect the actual entrepreneurial firm behavior (Stambaugh et al., 2017). Generally, EO is found to be positively related to firm organizational performance (Wang, 2008).

Assessing the firm organizational performance has been becoming an important strategic management practice by organizations. Many scholars and practitioners have considered measuring firm organizational performance as a one of the prime objectives as it directly influences on organizational performance improvements (Williams, 2018; Javad et al., 2020). Organizational performance is two-fold; financial performance and non-financial performance (Kee and Rahman, 2017). To achieve superior organizational performance, businesses are needed to continually transmit their entrepreneurial abilities into strategic actions. Efforts to improve all main aspects of operations in the organization continuously is referred as business organizational performance management (Javad et al., 2020; Nazarian et al., 2017).

Gunawan, et al., (2016) defined the innovation as the ability of a firm in developing new products/services. These new products and services are considered as innovation indicators since those reflect the ability of a firm to adapt to market changes (Gunawan, et al., 2016). Innovation is the transformation of an idea into a new product or service that meets and satisfies the needs and expectations of customers (Kuhn and Marisck, 2010). Du Plessis (2007) further pointed out the importance of innovation in business organizational performance. Darroch (2005) supports the same idea mentioning that to achieve better organizational performance in a business and take the competitive advantage, business knowledge needs to be managed innovatively.

1.1 Research Problem

According to Gamage (2003), comparing to the other countries in the region, the contribution of SMEs to the Sri Lankan economy is very low. Department of Census (2014) further explained that, Sri Lanka does not have generally accepted criteria for SMEs. The researcher has selected Southern Province to conduct the study as most of the existing studies were focused on SMEs established in Western Province, Sri Lanka. Southern province of Sri Lanka is identified as the heart of SMEs in Sri Lanka where many SME establishments are contributed to the national GDP from the Southern Sri Lanaka (Sriyani, 2019). Even though there are many researchers who conducted studies to check the relationship between EO and organizational performance, contradictory arguments on the findings were motivated to study the given phenomenon further (Kee and Rahman, 2017; Lechner and Gudmundsson, 2014; Hughes and Morgan, 2007).

Previous studies confirmed that the connection amid EO and organizational performance is

vague and uncertain (Hayat et al., 2019). Wang (2008) revealed that, from the findings in the literature on the EO-organizational performance relationship is that simply investigating the direct effect of EO on firm organizational performance does not provide a complete picture. This causes future research to control internal and external contingent factors in the examination of this relationship. If business organizations neglect these factors, it might lead to the 'wholesale adoption' of an entrepreneurial strategic orientation (Wiklund, 1999), and entrepreneurial efforts put on to achieve the competitive advantage may be useless.

A few scientists found a positive connection between EO and organizational performance (Jayampathi & Kumara, 2016; Jia et al., 2014; Arief et al., 2013) while some researchers found a negative link or not a significant link with reference to proposed association (Shamsuddin et al., 2012; George et al., 2001). As such, there is no unanimous conclusion on the EO, various scholars have defined EO based on different viewpoints according to their study perspectives (Soares and Perin, 2019; Lumpkin and Dess, 1996).

This inconsistent behavior fuels researchers to investigate the role of EO more in deep with organizational performance (Schepers et al., 2014). Many studies

Due to the inconsistencies exist in the literature on EO and organizational performance, identification of indirect effect of EO toward performance is important. Many scholars have focused to investigate the mediating and moderating roles of different variables which may be possible to influence the relationship between EO and performance (Schepers et al., 2014; Wang, 2008; Covin et al., 2006; Rauch et al., 2004). According to Rahman and Kee (2017), propound the effect of mediator than the moderator effect on EO-Performance relationship. Scholars have argued that innovation as a main entrepreneurial characteristic plays a pivotal role in organizational success and growth (Kee and Rahman, 2017; Lechner and Gudmundsson, 2014; Hughes and Morgan, 2007). Literature argues that EO leads to better organizational performance when business owners are more vigilant to adapt on quick and dynamic environmental and market changes (Kee and Rahman, 2017). Therefore, the study aims to examine the effect of EO on organizational performance amidst innovation acts as a mediator.

The main objective of the study is to empirically test the relationship between EO and organizational performance to understand the entrepreneurial behavior of Sri Lankan entrepreneurs. In parallel with the main objective, identify the indirect effect of organizational innovation on the nexus between EO and organizational performance also expected to achieve at the completion of this study. Further it aims to provide some directions to the strategic decision makers and practitioners in the SME sector to

boost the entrepreneurial culture within the country by arranging relevant facilities required to enhance the current level of entrepreneurship in Sri Lanka.

2. LITERATURE REVIEW

Many researchers have considered small businesses as the backbone of any country's economy (Gamage, 2003). Because small business needs relatively less capital and infrastructure but plays an important role in any economy through generating of employment, contributing to the growth of GDP, embarking on innovations and stimulating of other economic activities (Gamage, 2003). In Sri Lanka, more than 80% of businesses run by Small and medium enterprises which are mainly in foods processing, manufacturing, and construction field (Galagoda, 2008). In addition, they are supplying about 35 percent of employment and about 20 percent of total industrial value addition.

In this study, three dimensions of EO are used to measure the organizational performance, and two components of innovation are proposed to improve such relationships. It will be discussed previous studies on each variable below.

2.1 Entrepreneurial Orientation (EO)

EO is defined as the organization's strategic posture to capture different entrepreneurial decision making abilities and styles, methodologies, and behavioral aspects (Wales, 2016; Wales et al., 2013; Lumpkin and Dess, 1996). According to Miller (1983), EO refers to the strategic approach of firms in terms of risk-taking, innovativeness, and proactiveness. Lumpkin and Dess introduced two dimensions to assess the EO; competitive aggressiveness and autonomy in 1996. The model introduced by Miller in 1983 will be applied to achieve the objectives of this study.

Risk-taking is defined as the degree which managers are willing to make large and risky resource commitments i.e., those have a reasonable chance of cost failures (Miller and Friesen, 1978). According to Rauch et al, (2009), risk taking involves the act of willingness to undertake risky business decision such as investment. Wiklund and Shepherd (2005), explained innovativeness as the tendency and the behavior which contributes to innovation through new ideas, experimentation, and creative processes. Proactiveness refers to the ability of a firm to stay ahead from its competitors in predicting future changes (Gunawan et al., 2016). Proactiveness is defined as seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of the life cycle (Venkatraman, 1989).

The literature review highlighted recent studies used to merge innovativeness, proactiveness, and risk-taking into a single dimension to identify the combined effect of

EO on organizational performance (Hughes and Morgan, 2007). Lumpkin and Dess (1996) show the usefulness of viewing the firm's EO as a multidimensional construct rather than unidimensional. Further, literature explains that all these three dimensions are positively correlate with organizational performance (Kollmann and Stöckmann, 2014; Wang and Yen, 2012) and, only two dimensions namely innovativeness and competitive aggressiveness have positive effect on performance while risk taking does not (Meekaewkunchorn et al., 2021; Arshad et al., 2020; Lechner and Gudmundsson, 2014; Kraus et al., 2012; Hughes and Morgan, 2007). Arshad et al. (2014) studied the effect of EO on business organizational performance among SMEs in Malaysia based on the model given by Lumpkin and Dess (1996) and found that, out of five dimensions of EO, four dimensions significantly influence business organizational performance (innovativeness, proactiveness, risk-taking, and competitive aggressiveness). A few scientists found a positive connection between EO and organizational performance (Jia et al., 2014; Arief et al., 2013) while some researchers found a negative link or not a significant link (Shamsuddin et al., 2012; George et al., 2001). Due to this misconception exist in the literature, necessity of a new study is identified as a mechanism to solve the empirical gap (Schepers et al., 2014).

2.2 Innovation

Even though there is no generally accepted definition for innovation, scholars have used to define the term innovativeness based on their own perspectives. Oslo Manual (OECD, 2005) explained innovativeness as the implementation of a new technique in business practices, workplace, or external relations. Kuhn and Marisck (2010) defined the process of transformation of an idea into a new product or service that meets and satisfies the needs and expectations of customers as the innovativeness. Innovation is defined as the ability of a firm in developing new products/services (Gunawan et al., 2016). Further they explained that these new products and services are considered as innovation indicators since those reflect the ability of a firm to adapt to market changes.

Mazzarol and Reboud (2008) measured innovativeness using product, process, and administrative perspectives. McGrath (2001) measured it using product, process, and market innovations. To measure the effect of innovation to organizational performance, researchers generally examine the indicators such as research and development, patents, new products, and services offered by firms (Hagedorn and Cloodt, 2003). Three dimensions (product innovation, process innovation, and market innovation) used by McGrath (2001) is applied for the purpose of this study to measure the innovativeness.

To face the current level of intensive competition and turbulent business environment, SMEs need to monitor their competitors through rapid innovations (Byukusenge and Munene, 2017). The study conducted by Calisir et al. in 2013 recognized that innovation is a significant mediator between business processes and organizational performance. Also, Avlonitis and Salavou (2007) revealed that EO is a significant predictor to innovation. Ar and Baki (2011) found that product and process innovations were led to superior organizational performance while product innovations were identified as most. Hajar (2015) studied the relationship between innovation and organizational performance of wooden furniture manufacturing SMEs in Indonesia and revealed a positive and significant relationship between the variables. Moreover, Terziovski (2010) found that innovation culture and strategy represented key drivers to the organizational performance of manufacturing SMEs in Australia.

According to Du Plessis (2007) and Huang and Li (2009), innovations have significant influence on organizational performance, survival, and competitiveness. However, some studies which conducted to examine the relationship between EO, and organizational performance found no relationship between the variables (Lee et al., 2016; Tajasom et al.; 2015).

2.3 Organizational performance

Organizational performance has been defined in various forms by different scholars. Among them, Gharakhani and Mousakhani (2012) have defined organizational performance as the ability of an organization to create outcomes and actions at an acceptable level. According to Kee and Rahman (2017), organizational performance can be measured using different parameters such as sales, profitability, market size, and nonfinancial performance indicators.

Lin et al., (2008) defined organizational performance as the achievement of business goals that includes the growth in sales, profitability, and markets share. Lisboa et al. (2016) measured organizational performance as the capability in new product differentiation, sales, and speed to market. Emoke-Szidonia (2015) measured organizational performance using sales and profitability information in his study to identify the relationship between EO and organizational performance. Ar and Baki (2011) measured organizational performance by using sales, market share and profitability.

2.4 Relationship between EO and organizational performance

Previous studies have proven that organizations are getting benefits from being novel, creative, responsive, and bold (Rauch et al., 2009). Extensive arguments have been done on the relationship between EO and performance

(Lumpkin and Dess, 1996). In a turbulent business environment, to face for the future uncertainty, indeed, business organizations need to constantly seek new opportunities and generate innovations (Rauch et al., 2009). Therefore, organizations must adopt with EO which fostering more innovation to deal with rapidly change market (Wales et al., 2013). As Ireland et al. (2013) postulate, the efforts taken to anticipate demand changes and position out the products in the market aggressively are often determined the strong relationship in organizations. Though, conceptually EO leads to superior level of performance, extent of relationships identified vary across studies (Kee and Rahman, 2017; Lechner and Gudmundsson, 2014; Rauch et al., 2009). Also, some studies contended that firms those who adopt with EO perform better than the firms who do not (Wiklund and Shepherd, 2005; 2003) and some others explained a lower level of relationship between EO and performance (Meekaewkunchorn et al., 2021; Arshad et al., 2020; Lumpkin & Dess, 2006; 2001; Dimitratos et al., 2004).

3. METHODS

The study was carried out to identify the relationship of EO and organizational performance, based on the manufacturing SMEs in Sri Lanka. Also, it attempts to examine the mediating effect of innovation in the association between EO on organizational performance. The cross-sectional survey method was applied to carry out this study. The population of the study was comprised with manufacturing SMEs in southern province in Sri Lanka. SMEs are contributing to 45% of domestic employment and 52% of the GDP of Sri Lanka (Department of Census and Statistics, 2017). Southern province of Sri Lanka is the 03rd highest contributor to the national GDP compared with other regions in Sri Lanka (CBSL, 2015). According to the Department of Census and Statistics (2017), 60% of the small-scaled establishments and 47.9% medium-scaled establishments have scattered in the rural areas in Sri Lanka. Hence, it can be assumed that Southern province of Sri Lanka is one of the leading characters in the GDP among other regions in Sri Lanka.

Primary and secondary data sources were used to gather data for the study. A self-administered questionnaire was used to gather the primary data from the respondents. Based on the literature review, the questionnaire was prepared and consisted with five sections. The first section addressed the respondents' profile. The main purpose of the respondent's profile was to identify their background especially the age, business experience, nature of the business etc. The second part of the questionnaire used to cover the EO, third section to address the innovation and, the fourth section considers the entrepreneurial organizational performance. Likert scale questions were applied to test the attitude of respondents against each study construct were ranked from 5-strongly agree to 1- strongly disagree. Once the questionnaire prepared, it was considered eight

SME manufactures where located nearby the researcher for the pilot study to identify the understandability of the questionnaire by respondents. As the views taken from the pilot study, the final questionnaire was refined and get ready for the final data collection.

The study sample consisted with 240 SME manufacturers. The population of the study was consisted with around 1500 of SME manufactures registered at the Small Enterprise Development Division (SEDD) in Galle, Matara and Hambanthota districts. It was selected the number of 80 SME manufacturers by giving an equal chance for each district. A systematic random sampling technique was applied by selecting each 5^{th} number of SME manufacturer registered in the registry and continues until satisfy the 80 respondents' requirement from each district. The response rate was reported as 78% out of the 240 SME manufacturers. Number of 13 questionnaires were not considered for the data analysis due to the incompleteness and the mismatch between the data provided. Books, journal papers, conference papers, newsletters, periodicals, and magazines were considered for the secondary data purposes of the study. The data was analyzed using the SPSS statistical software, and correlation, linear regression and several other descriptive statistics were measured to test the study hypotheses. The SPSS software was used as the statistical tool to analyze the primary data.

3.1 Hypothesis Development

According to Zehir et al., (2015), there is a general perception that EO affects firm organizational performance. In the entrepreneurship literature, researchers discussed the importance of the relationship between EO and organizational performance (Jia et al., 2014; Arief et al., 2013). Many studies posited a powerful relationship between EO and organizational performance (Wales et al., 2013; Rauch et al., 2009; Wiklund & Shepherd, 2005; Lumpkin and Dess, 2001).

H_1 - There is a positive relationship between EO and organizational performance.

It is important to consider that there is a difference between innovativeness and EO. EO is an attitude-based construct toward certain behaviors, while innovativeness can be considered as behavior based construct designed to achieve results (Rhee et al., 2010; Hult et al., 2004). Rahman and Kee (2017) figured out that EO established a direct impact on innovation. Madhoushi and Mehdivand (2011) discovered a positive impact of EO towards innovation organizational performance by conducting a study in Iranian SMEs. Thus, it can be concluded that EO directly affects innovation and organizational performance. (Hughes and Morgan, 2007; Ireland et al., 2005; Lumpkin and Dess, 2001).

H_2 - There is a positive relationship between EO and innovation.

As mentioned earlier, some researchers have found that the positive link between innovation and organizational performance. According to Du Plessis (2007) and Huang and Li (2009), innovation has a significant influence on organizational performance. Rahman and Kee (2017) found that innovation has a significant impact on organizational performance.

H_3 - There is a positive relationship between innovation and Organizational performance

Researchers began to seek internal and external factors which mediate the relationship between EO, and organizational performance rather sticky on the direct link as inconclusive findings observed in the relationship between EO and performance (Schepers et al., 2014). Zehir et al., (2015) studied the link between EO and firm organizational performance with the mediating role of innovation and differentiation in manufacturing industry in Turkey. They found that both differentiation strategy and innovation mediate the EO and organizational performance relationship. Additionally, Rahman and Kee (2017) who conducted a study on SMEs in Malaysia found innovation as a significant mediator between EO and SME performance. Hult et al. (2004) explained that innovativeness acts as a partial mediator in the EO-organizational performance relationship.

H_4 - Innovation mediates the relationship between EO and organizational performance.

4. RESULTS

The respondents of the study were consisted with 31% of food manufacturers, 28% of apparel manufacturers, 21% of handicrafts manufacturers, 12% of furniture manufacturers, and 8% of ironware manufacturers. Considering the age of the business, 32% of respondents reported that they have 5-10 years of business experience, 27% was reported that they have 10-15 years of experience, 24% of respondents having 0-5 years of experiences, while 17% of respondents have more than 15 years of experience in the business.

To ensure the error freeness and the validity of the instruments used in the study, reliability and validity were considered. To identify the internal consistency of the study variables and study constructs, Cronbach's Alpha was estimated (Table 1). The reliability of the study constructs examined using the Cronbach's alpha and results show that Cronbach's alpha for each construct is greater than 0.7, which is an indication of high reliability and internal constancy (Carlo & Rose, 2011). As per the table 01, all variables recorded the Cronbach's Alpha value greater than 0.6. Thus, it can be assumed that the reliability of all measures considered to evaluate the study variables are satisfactory. As per the table given below, each variable of EO recorded high reliability; Risk taking (0.873), Innovativeness (0.796), and Proactiveness (0.853). Innovation which was considered as the mediator of the study reported 0.824 of Cronbach's Alpha value and organizational performance

recorded a 0.912 of reliability. The table 1 indicates that study variables perform a good internal consistency.

To measure the validity of the study sample, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity were tested. To accept the data, the KMO should be greater than 0.5 and Bartlett's Test of Sphericity should be significant. Table 2 shows that the KMO is 0.609 and Bartlett's Test of Sphericity, which is significant at $p < 0.05$. Hence, the sample used for the study were adequate for further analysis.

Using the Pearson's correlation with two-tailed test of significance, the Correlation analysis has been made to investigate the relationship among independent variable (EO), dependent variable (organizational performance) and mediating variable – (innovation), The results driven from the study summarized in Table 3.

According to the table 3, correlation coefficient between the EO and the Organizational performance is 0.717 ($p < 0.05$). And 0.852 of correlation coefficient value recorded (where $p < 0.05$) for the relationship between EO and the innovation. Correlation coefficient value between innovation and Organizational performance is reported as 0.843 ($p < 0.05$).

Proactiveness has reported the highest correlation coefficient with the Organizational performance ($r = 0.711$ where $p < 0.05$). Innovativeness as the EO dimension in the second place with the association of Organizational performance ($r = 0.627$ where $p < 0.05$). Risk taking also performing a good coefficient value ($r = o.551$ where $p < 0.05$) with Organizational performance.

Table 5 depicts the model summary of the study variables. The R square value has been recorded as .571. The R value refers the extent which the dependent variable is explained by the independent variable. As per the results depicts in the table 4.5, around 57% of the dependent variable of the study (organizational performance) is explained by the independent variable (EO). This can be assumed as a good sign for the robustness of the measures used in the study and, can be concluded that EO has significantly explained the variance of organizational performance satisfactorily.

Table 6 indicates the strength of individual components in the EO construct with the organizational performance. As per the table 4.6, highest number in the beta is recorded as 0.321 for proactiveness which is significant at the $p < 0.05$. Innovativeness can be ranked as the second with beta value of 0.262 at the $p < 0.05$ of significant level. Risk-taking becomes the lowest with the beta of 0.061 at the significant level where $p < 0.05$. Therefore, it can be concluded that out of all three dimensions used in the study; Proactiveness has the reported the highest impact on organizational performance while innovativeness and risk-taking took second and third places, respectively.

Investigate the mediating effect of innovation on the relationship between EO and the organizational performance, Baron and Kenney's (1986) criteria for mediation was applied. As the first step, it was measured regression between EO and performance and reported R^2 = 0.571, where $p < 0.000$. The first requirement assessed the significance of the relationship between the independent variable (EO) and the dependent variable (Organizational performance) ($r = 0.717$, $P < 0.000$). Second requirement assessed the relationship between EO and the innovation ($r = 0.852$, $P < 0.000$) and indicated a significant relationship (Figure 2). Third criterion for the mediation, correlation between innovation and the organizational performance was assessed ($r = 0.843$, $P < 0.000$). The final criteria were regressing independent variable and mediating variable against dependent variable. Accordingly, EO and innovation regressed together and considered with the organizational performance ($B = 0.689$, $P < 0.000$).

5. DISCUSSION AND CONCLUSION

Results of the study initially revealed that there is a good combination among study variables. The findings of this study consist with the previous studies that established a significant and positive relationship among study variables (Jayampathi and Kumara, 2016). It has recorded a strong positive relationship between EO and Organizational performance ($r = 0.717$) of manufacturing SMEs in southern province Sri Lanka (Table 4.4). This implies that EO is a good predictor of organizational performance. Hayat et al., (2019); Arshad et al., (2014); Lumpkin & Dess (1996); Arief et al., (2013); and Jia et al., (2014) also have confirmed the positive association between EO and Organizational performance. Proactiveness has reported a strong positive relationship ($r = 0.711$) with the Organizational performance while innovativeness ($r = 0.627$) and the risk taking ($r = 0.551$) are performing a moderate level of relationship with the Organizational performance (Jayampathi and Kumara, 2016). However, these results show that the three dimensions of the EO are positively affects to determine the organizational performance of SMEs (Lechner & Gudmundsson, 2014; Kollmann & Stöckmann, 2014; Wang & Yen, 2012; Kraus et al., 2012; Hughes & Morgan, 2007).

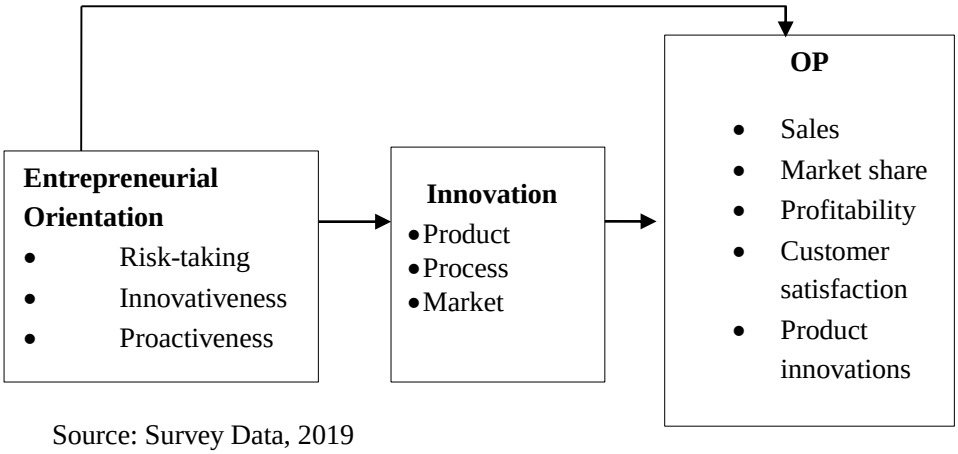
There is a strong positive relationship between EO and innovation ($r = 0.852$). Rahman and Kee (2017); Ireland & Webb, (2007); Drucker, (1998); and Zahra et al., (1999) have confirmed the positive relationship between EO and innovation in their studies. Innovation and organizational performance also reported a strong positive relationship ($r = 0.843$). This significant effect is like the previous studies carried out by Jiménez & Valle, (2011); Wang & Wang, (2012). These results indicate that all the variables considered in the study are interrelated and interdependent to determine the organizational performance. Further, the study proves that proactiveness as the

most significant dimension which determine the Organizational performance. The impact of innovativeness is the second powerful dimension on the Organizational performance while risk taking has a lowering effect. Moreover, the study found that innovation mediates the relationship between EO and organizational performance of manufacturing SMEs in Southern Province Sri Lanka. This meditating effect of innovation in the relationship between EO and organizational performance is confirmed by Zehir et al. (2015) and Madanoglu et al. (2016). Thus, it can be concluded that EO and innovative practices of SMEs in Sri Lanaka play a pivotal role in determining the performance.

Findings of the study directly contribute to the existing literature on entrepreneurship studies (Meekaewkunchorn et al., 2021; Arshad et al., 2020). Also, the study extends many insights for practitioners and policy makers to envisage the development of entrepreneurship in Sri Lanka. Due to the extreme competition available in the marketplace, SMEs should adopt EO practices with their business engagements. Therefore, it is essential to ensure the availability of required information regarding the EO and organizational performance to make suitable decisions in business organizations. Industry practitioners may apply the results derived from this study to enhance their organizational performance while strengthening proactiveness, risk-taking, and innovativeness. Further, the research suggests paying much attention to enhance the entrepreneurial capabilities related to proactiveness. Those should be able to typically respond to the actions of their competitors, try to introduce new products, administrative techniques and operating technologies will be able to boost the organizational performance. Typically seek to avoid competitive clashes and upgrading the "live-and-let-live" approach in business organizations. Simultaneously, SMEs in manufacturing sector should keep an eye on number of new product lines and their innovativeness in future. Enterprises should be on alert about the ongoing economic trends and patterns and ready to take the risk as necessary (Rezaei & Ortt, 2018). Government and other respective facilitative bodies are also will be benefitted from the results driven from the study. They will be more comfortable with these results when they make policy decisions related with SMEs. Future researchers are motivated to do more studies on EO and organizational performance of SMEs since it is essential to update the behavior of EO. The EO could be behave in different aspects when the economic, social, political and legal aspect may change. Thus, future studies are possible to conduct surveys in different angles using various control variables like environmental turbulence and IT orientation etc. Comparison of EO between different industries will provide more insights for the practitioners and as well as the researchers on the study variables.

APPENDIX

Figure 1: Conceptual framework



Source: Survey Data, 2019

Table 1: Reliability

Dimension	Cronbach's Alpha
Risk-taking	0.873
Innovativeness	0.796
Proactiveness	0.853
Innovation	0.824
OP	0.912

Source: Survey Data, 2019

Table 2: Validity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.609
Bartlett's Test of Sphericity	Approx. Chi-Square	173.132
	df	3
	Sig.	.000

Source: Survey Data, 2019

Table 3: Relationship between EO and OP

Construct		OP	Innovation
EO	Pearson Correlation Sig. (2-tailed)	.717 0.000	.852 0.000
Innovation	Pearson Correlation Sig. (2-tailed)	.843 0.000	

Source: Survey Data, 2019

Table 4: Relationship between EO dimensions and organizational performance

Dimension		Risk-taking	Innovativeness	Proactiveness
Organizational performance	Pearson Correlation	.551**	.627**	.711**
	Sig. (2-tailed)	.000	.000	.000

Source: Survey Data, 2019

Table 5: Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics
					Sig. F Change
1	.716[a]	.571	.679	.332	.000

a Predictors: (Constant), Risk-taking, Innovativeness, Proactiveness

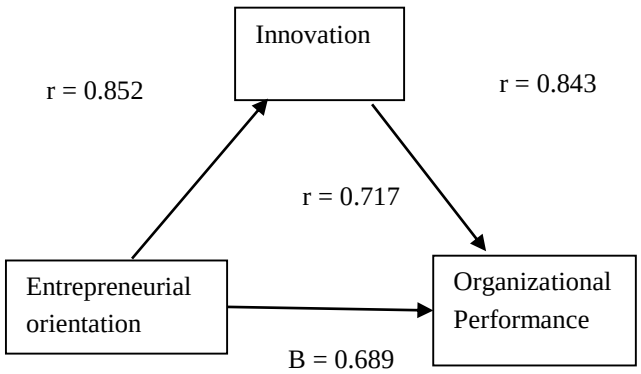
Source: Survey, 2019

Table 6: Coefficients

Model	Unstandardized Coefficients		Standard: Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	.922	.418	-	2.447	.016
Risk-taking	.061	.195	.007	0.361	.003
Innovativeness	.262	.088	.290	1.721	.000
Proactiveness	.321	.095	.597	2.420	.000

Source: Survey, 2019

Figure 2: Indirect effect of innovation on the relationship between EO and OP



Source: Survey Data, 2019

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