

**THE RELATIONSHIP OF ENTREPRENEURIAL  
ORIENTATION AND ENTREPRENEURIAL  
MARKETING WITH PERFORMANCE OF  
OWNER-MANAGED SMALL FIRMS  
IN KARACHI, PAKISTAN**

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IN KARACHI, PAKISTAN**

**by**

**EJAZ AHMED MIAN**

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requirements for the degree of  
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# **ORIENTASI KEUSAHAWANAN, PEMASARAN USAHAWAN DAN PRESTASI FIRMA KECIL DI KARACHI, PAKISTAN**

## **ABSTRAK**

Prestasi firma kecil adalah penting bagi pertumbuhan ekonomi Pakistan dan penyediaan pekerjaan kepada 180 juta rakyatnya. Malangnya, seperti kebanyakan negara-negara membangun yang lain, firma-firma kecil di sini juga berhadapan dengan bermacam-macam masalah. Oleh itu, adalah penting untuk memahami bagaimana firma-firma kecil boleh menjadi lebih berjaya dan memainkan peranan yang lebih bermakna seperti yang diharapkan daripada mereka. Tesis ini mengkaji peranan orientasi keusahawanan, pemasaran keusahawanan dan latar belakang ke arah kejayaan firma kecil. Sehubungan dengan itu, pengaruh demografi dan latar belakang persekitaran makro kepada orientasi keusahawanan dan prestasi disiasat. Peranan orientasi keusahawanan dalam prestasi dan dalam amalan pemasaran keusahawanan juga dikaji. Selain dari itu, peranan pemasaran keusahawanan sebagai pengantara di antara orientasi keusahawanan dan prestasi serta peranan pemasaran keusahawanan dalam prestasi diterokai. Kajian ini menggunakan model yang komprehensif berdasarkan RBV, Teori Keusahawanan dan model Stokes untuk pemasaran keusahawanan. Data dikumpul daripada 430 firma-firma kecil dalam sektor perkhidmatan dan pembuatan di bandar metropolitan terbesar Karachi dan pusat komersial Pakistan. Hasil kajian menunjukkan bahawa konstruk orientasi keusahawanan dan pemasaran keusahawanan secara statistiknya signifikan meramal prestasi firma-firma kecil. Demografi dan latar belakang makro alam sekitar juga meramalkan orientasi keusahawanan dan prestasi. Kesan pengantaraan beberapa pembolehubah pemasaran keusahawanan juga diperhatikan dalam hubungan antara orientasi keusahawanan dan prestasi. Khususnya inovasi dan pengambilan risiko adalah peramal yang kuat untuk berjaya. Model gabungan termasuk latar belakang, orientasi

keusahawanan dan pemasaran keusahawanan dapat menjelaskan perubahan yang besar dalam prestasi firma-firma kecil. Peranan pengkasaan pekerja secara khususnya adalah ketara dalam menentukan prestasi firma-firma kecil dan amat penting sebagai sumber inovasi dalam firma tersebut.



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**ABSTRACT**

Small firm performance is vital for growth of Pakistan's economy and for providing employment to its 180 million people. Unfortunately, like many developing countries, small firms are plagued with multifarious problems. It is important to understand how small firms can be more successful and play a more meaningful role as expected of them. This dissertation studies the influence of entrepreneurial orientation and entrepreneurial marketing on performance of owner-managed small firms in Karachi, Pakistan. Further the influence of demographic and macro-environment antecedents on entrepreneurial orientation is investigated. Then the influence of entrepreneurial orientation on performance and on entrepreneurial marketing is investigated. Finally influence of entrepreneurial marketing as mediator between entrepreneurial orientation and performance is investigated. The study uses an elaborate model based on the RBV and Theory of Entrepreneurship and Stokes model for entrepreneurial marketing. Data was collected from 430 small firms in Karachi the largest metropolitan city and commercial capital of Pakistan. Quantitative research is conducted based on judgmental sampling from the industrial clusters in Karachi. SPSS is used to test proposed hypotheses. Results of the study indicate that constructs of entrepreneurial orientation and entrepreneurial marketing are statistically significantly predictors of performance of small firms. Demographic and macro environment antecedents also predict entrepreneurial orientation. Mediation effect of some variables of entrepreneurial marketing is also observed in the relationship between entrepreneurial orientation and performance. Specifically innovation and risk-taking strongly influence performance. The model including entrepreneurial orientation and entrepreneurial marketing is able to explain a substantial variation

in the performance of small firms. The role of employee empowerment is especially significant in performance of small firms and is an essential ingredient for innovation in the firm.

Academicians are suggested to choose other variables in future studies and to conduct studies in rural areas and in other markets. Practitioners are suggested to empower employees for innovation. They should also not hesitate from taking calculated risk-taking. Government must provide suitable infrastructure and relevant advice to small firms.

## **CHAPTER 1- INTRODUCTION**

The purpose of this chapter is to provide an overview of the present study and its organization. It will highlight background of the study, research problem, research questions, and research objectives, significance of the study, scope of the study, definitions and descriptions of terminologies and the organization of the dissertation.

### **1.1 Background of the Study**

#### **1.1.1 History of Small Firm Research**

This study is about the most prevalent form of business on earth—the small business. Small businesses are run by owner-managers and entrepreneurs. The study is conducted in Pakistan, a developing country. Purpose of study is to investigate influence of entrepreneurial orientation and entrepreneurial marketing in performance of owner-managed small firms.

Small business, small firms and entrepreneurs are the bywords in business today. Entrepreneurial stories are popular. How small starters become champions of business are topics of debate in schools and among young people (Boswell, 2014; Haltiwanger, et al., 2013; Cannon, 1991). They become champions and acquire wealth and in the process give value to society in terms of new products, processes, employment, leadership and motivation to achieve (Blackman, 2010; Ayyagari et al., 2011; de Geus, 1997). There is more and more involvement of the small firm in creating new wealth. Ninety percent of the wealth in USA has been created since 1980 in which the small firm has played a

major role (Blackman, 2010; Economic News, 1997). USA small firms with less than 20 people generate 50 percent of the GDP. In Europe small firms provide 66 percent employment.

This study addresses owner-managed small firms in Pakistan. While one can be a manager without owning the firm, most managers own the small firms they manage. They are called owner-managers. Owner-managers (OMs) need not be entrepreneurs though they can be. In fact most OMs are not entrepreneurs. Entrepreneurs are based on their character. Entrepreneurs are those who show entrepreneurial characteristics. Though there are scores of entrepreneurial orientation characteristics, some of the leading ones include innovation, risk-taking and internal locus of control. Studying owner-managers is important as their behavior is different from that of employed managers (Jones, et al., 2010; Stokes, 2000). It is easier for OMs to take decisions involving risk-taking and investments. Employed (or professional) managers cannot have the same flexibility as they remain answerable to the owner (Wang, et al., 2010; Acs, et al., 2005).

In the late twentieth century focus of business shifted from the large to the small firm. There were many stories associated with the rise of the small firm, e.g., Microsoft, or Virgin Atlantic. Small firms could fulfill dreams of many individuals who wanted to grow and be successful. Small firm and entrepreneurship are broadly overlapping concepts. But still they are different. There are many reasons for growth of small firms, including expansion in service sector compared to manufacturing, and outsourcing. Other factors include social, market and political changes (Wang, et al., 2010).

There are differing views on what is small firm (Schaper et al., 2010). There is no uniform definition of the term. Small vs. medium or large firms are classified either by

turnover or by number of employees or by investment. In this study small firms are defined as those having between 6 and 50 employees (Government of Pakistan, 1988). While referring to the small firm it should be noted that the terms SMES (small and medium sized enterprises) and small firms will be used interchangeably as research in Pakistan in these two sectors is overlapping, and research into SMEs has so far included small firms.

The Role of SMEs has been increasingly recognized the world over (Boswell, 2014). Especially in developing countries their role in employment generation, exports and in increasing industrial production has been emphasized (Kazmil & Farooque, 2000). They form an integral part of a well growing and expanding economy. Small businesses can enable rapid industrialization and accelerated economic growth. Recent literature from all parts of the world suggests the importance of SMEs in the overall performance of the economy, including USA (Boswell, 2014; Haltiwanger, et al., 2013; Audretsch, 1998), Japan (Urata and Kawai, 1998), East Asia (Berry and Mazumdar, 1991), and Africa (Morris, 1996). This is due to the realization of the scope of SMEs in economic structure and performance (Berry, 1998).

In spite of the recognition of their importance, performance of SMEs has always fallen short of expectations (Arinaitwe, 2006). It needs investigation as to why SMEs (including small firms) have not been able to play their due role in poverty reduction, economic recovery and other developmental goals in the economies of developing countries.

The terms small firms and entrepreneurship are also often used interchangeably. This is due to the fact that research in small firms has addressed entrepreneurs and entrepreneurship. Usually small firms are not formal and are not interested in systematic

decision making. Instead they are more judgmental. Also on the positive side, they do not suffer from the obesity of the large firm. Thus decision making in small firms can be fast and effective.

Not all small firms have profit or growth as their sole objective. Many are lifestyle firms. Owners of such firms are more interested in utilizing their skills and expressing themselves, or even using their time. On the other hand there are growth firms. They are founded with the intention of growth. Even lifestyle firms may become growth firms. But if they are not run entrepreneurially then they may have problems when they start growing. The hardest period for a small firm is the first three years in which almost 50 % firms fail (Blackburn, et al., 2009).

Though most of the small firms are managed by the owners themselves this may not always be the case. Small firms could be managed by professional managers who do not own the firm. When their employee strength exceeds about 20, they may start to appoint professional managers (Blackburn, et al., 2009; Burns, 2001). Owners may call in professional managers to run the firms if they are facing time pressure, are busy in other activities or in some cases have entered retirement. As may be expected, professional managers' decision making would be different from that of owners. They would be more reluctant to take risks and be more defensive in their managerial activities. They would be more likely to follow rules and regulations rather than act on impulse. Consequently they would also be less likely to be innovative.

Focus of this study is on firms run by owner-managers (OMs). In such firms personality of the OM is of central importance and a determinant of the firm behavior. In fact all major decisions of such firms are made by the OMs. Small firms are different from large firms

in many ways. They are managed in a personalized way by the OMs. Small firms are not 'little large firms.' Personality of OMs of small firms needs to be understood to understand small firm behavior. Small firms are like families or even social organizations. Their decision making is different from that of larger firms. Small firms are resource strained. Their limitations include lack of free access to capital and lack of knowhow specially in the field of marketing. They are limited in terms of marketing expenditures. Small firms usually need quick pay back and cannot invest long term. Venture capitalists are hard to find. And if found they are interested in working in limited markets and few products. Venture capitalists work with few close customers. On the other hand so far business administration theory finds only limited application in small business. Modes of raising finance for large firms may not apply to small firms. Manpower availability and use is another limitation. There is limited potential to hire new employees. This is one of the important reasons why small firms are wary of advisors. In small firms uncertainty with respect to their evolution plays a large part. Nature of the management style may also change substantially in small firms as they grow. Small firms are characterized by small share of market and thus cannot play a dominating role in pricing or controlling supplies. Due to this reason most small firms are forced to operate within some kind of niche in order to play an effective role (Burns, 2001).

### **1.1.2 Small Business in Developing Vs. Developed Countries**

It was in late 1980s and early 1990s that experts realized huge potential for small business to be catalyst for great political, social and economic change in developing countries. In countries which were poor for generations, market based economies were

emerging. Many anticipated that small business and entrepreneurship would be leading forces to new economic development in historically tightly controlled systems (Nichter, 2009; Giamartino, 1991). On the other hand Giamartino also cautioned against too much excitement in this regard. Positive relationship between economic development and entrepreneurship has been supported in America (Birch, 1987) but there have been far fewer examples in the developing world (Giamartino, 1991). It is a broad assumption that there are similarities in economic development processes across developed and developing economies.

There are several challenges in applying the concepts of the developed world to the developing world. Firstly, the availability and quality of data is a problem in developing countries. Another challenge is the application of models of entrepreneurship development (Nichter, 2009; Giamartino, 1991) to the developing world. Internal and external components facing entrepreneurship in developing countries is significantly different from those in developed countries. These include financial resources, characteristics of locations, characteristics of employees, governments, taxes, laws and regulations, free trade policies and critical items such as infrastructure. Even in comparing economic trends in one developing country to another developing country, internal and external components will vary widely.

Small firms in developing countries typically do not own strategic assets in terms of physical resources. They most often utilize standardized equipment and unskilled labor that is readily available in the marketplace. These small-scale businesses use a low to medium technology strategy (Davidsson et al., 2010; Shi, 2001). Technological capabilities or the lack thereof is another reason as to why despite significant support



from their governments developing countries' small firms cannot grow or compete.

Adoption of computers has been a slow process in developing countries (Oliveira et al., 2011; Lind 2000). Small businesses in developing countries are often plagued with poor cost accounting, lack of quality awareness and non-existent business planning and performance monitoring. They are not used to considering information as a significant asset in decision-making (Lind, 2000). Owner managers do not understand what critical success factors for small business are.

Haltiwanger, (2013) and Romijin (2001) note that whereas small-scale businesses make an important contribution to manufacturing employment in developing countries, the contribution is often limited to generating subsistence employment of last resort, which has led to a fast labor force growth and limited employment opportunities. Most of these businesses are in the traditional, well established sectors and their customers are usually poor or lower middle class. Small firm cannot compete in technology with medium or large scale business (Romijin, 2001). Economy of scale is not in their favor. Their financial position is weak and so is their technology. All these combine to make them risk averse. And this further makes them shy about investment in new technology. A lack of ability to produce efficiently, upgrade product quality, meet deadlines and improve designs can lead to disaster. Due to all these factors, institutional support is very important for them especially in developing countries (Haltiwanger, 2013).

Many countries established industry development organizations for small and medium-sized businesses. These organizations were given the task of providing technical and management training, marketing assistance, technological advice, assistance with technology procurement and even subsidized finance. Although some organizations

focused on broader concerns, others were specifically focused on technology. Despite some positive results, these programs also encountered large number of problems (Haltiwanger, (2013). One such challenge was the underlying conceptual problem. In the beginning, it was debated whether or not small businesses could operate efficiently, given that they were not able to take advantage of key strategies such as economies of scale. Interestingly, very little attention was paid to the human factor in the equation. Few researchers, early on theorized that perhaps it was the lack of human skills and knowledge, which was preventing small businesses from being competitive. Also little attention was given to the fact that these human assets were unable to utilize and adapt the hardware they had to work with due to this lack of skill and knowledge (Romijn, 2001).

### **1.1.3 SMEs in Pakistan**

It has been understood in the developing world that promotion of SMEs entails enhancement of the competitiveness of the economy and generation of additional employment (Malik et al., 2009; Nazir et al., 2009; Berry, 1997). A thriving SME sector has long been recognized as one of the key characteristics of any prosperous and growing economy. Small firms are also a main source of employment for owners and others including non-family members.

According to the recent Census of Establishments conducted by the Federal Bureau of Statistics (FBS) there are about 3.2 million economic establishments in Pakistan. Out of these, small and medium sized enterprises constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force. SMEs contribute over 30%

to GDP, 25% in export earnings besides sharing of 35% in manufacturing value addition. Economic indicators clearly reveal the importance and potential of SMEs.

Pakistan is one of the developing countries where SMEs have not been able to play their due role as potential source of economic growth and development (Malik et al., 2009; Nazir et al., 2009; Berry et al., 1998). Failure of small firms often has catastrophic results for both the owners and society. Firm closure leads to social and financial problems and hardships to the family of the already poor owners of the business. This might lead to depression, crime and sometimes even suicides as reported almost daily in Dawn Karachi, the leading English language newspaper of Pakistan. For instance during early 2008 shortage of electrical power led to closure of several small businesses and bankruptcy of owners and in some cases suicides by owners. Thus, costs to society of such failures are more than economic. Small business stake holders include business owners and their families, employees, customers, suppliers, marketing intermediaries, government and the community. It is being increasingly realized that it is in the larger interest of all stakeholders small firms must be helped to help avoid such failures. Many problems being faced by the Pakistani small firms include lack of business know how, weak support from the state, absence of appropriate training programs, too much regulation, obsolete technology, difficulty in obtaining loans, lack of appropriate manpower, and a serious shortage of electricity, roads, transport facilities and other infrastructure. Small firms' weaknesses in how to do business include a serious lack of general management know how and of skills and knowledge in the area of marketing (Jasra, 2011). Berry et al., (1993) found that most of the problems faced by small business are related to marketing and its application. Roomi et al., (1998) studied

problems of SMEs in Pakistan and found that infrastructure was the number one problem for SMEs. According to Roomi et al., (1998), adequate infrastructure including electricity, roads, etc. play a pivotal role in growth and overall performance of SMEs. They found SMEs are characterized by high turnover in terms of birth and mortality rates with around half being less than five years old and only around ten percent being more than 20 years old. Rohra & Junejo (2009) in their study on 100 SMEs in Pakistan found that most of the SMEs were sick in Pakistan due to lack of planning strategies. Berry (1998) studied potential role of SME sector in Pakistan and concluded that in Pakistan performance of most SMEs was poor and most of them were facing falling revenues. According to Berry only 17% of the SMEs indicated increase in sales (18.7% on average) over the last five years, and 58 % of the firms showed decrease in sales (34 % on average). Future also appeared bleak with about half expecting sales to be stagnant, about 30 % expecting decline in sales (26.6 % on average) with only about 20 % expecting increase in sales (22.3 % on average).

It has been argued that if OMs can be trained, educated and motivated to act more entrepreneurially they can achieve better performance for their firms. In this study the objective is to explore the extent of entrepreneurial orientation in Pakistani OMs and their effect on performance of their firms. Developed world models cannot automatically be applied to the developing countries as explained earlier. Therefore in this study the models developed in the West including Stokes (2000) model of entrepreneurial orientation and entrepreneurial marketing is applied and tested with the small firms OMs. Only OMs are focused in the study as literature suggests it is OMs based firms which are likely to show more entrepreneurial orientation as they have personal stakes involved.

In spite of multifarious problems of small firms there has not been any serious effort to explore their problems apart from some isolated studies by educational institutions, e.g. LUMS (Lahore University of Management Sciences) and government, e.g. SMEDA (Small and Medium Enterprise Development Authority).

Government of Pakistan in its vision of 2007 for SMEs had as an objective, “SME led economic growth resulting in poverty reduction, creation of jobs and unleashing the entrepreneurial potential of the people of Pakistan.” And, “To create globally competitive SMEs by creating a hassle free business environment, ensuring provision of modern infrastructure & institutional support structures for access to resources & services”. SME Policy of government of Pakistan claims that different approaches are required for supporting small enterprises as opposed to medium enterprises. This is another reason to focus on small firms in this study rather than on SMEs.

## **1.2 Research Problem**

Pakistan is already the seventh most populous nation in the world and the fourth most populous in Asia, and its population is expected to increase to 350 million by the year 2025 (Khan and Bamber, 2007). Although the country is poor and 25% of the population lives under the poverty line, Pakistan nevertheless has had a remarkable growth of 7% in GDP until the year 2008 ago when the present government took over. This makes Pakistan a developing country with vast potential for small firms to play a pivotal role in the economic progress especially through employment generation and poverty alleviation. Developed world models cannot automatically be applied to the developing countries as environment in both situations is quite different. As Pakistan presents a

unique environment and context of doing business it is necessary that investigation should be made on factors related to performance of small firms (Bhutta, et al., 2008). Owner-managers are personification of the small firms owned by them (Parrott, et al., 2010). Their actions are perceived to be the actions of small firms. Entrepreneurial orientation of owner-managers (OMs) reflects entrepreneurial orientation of the small firm. Role of entrepreneurial orientation in success of small firms has found extensive mention in literature (Wiklund & Shepherd, 2003; Lumpkin & Dess, 1996).

Based on entrepreneurial orientation there can be two types of small firm owners Gartner (1988). The first are akin to managers in large firms, and others are entrepreneurs (Carland, et al., 1984). Entrepreneurially oriented OMs are characterized by innovation, risk-taking, adaptability, pro-activeness and pull motivation among scores of other factors found in literature. Not all OMs are or can be entrepreneurs (Kirby, 2004). There is an ongoing debate as to what constitutes an entrepreneur (Stewart Jr., et al., 1998).

Apart from the debate on what constitutes entrepreneurship, there is the need for understanding what factors influence entrepreneurial orientation within a particular context (Kuratko & Hodgetts, 2008). There are limited number of studies in Pakistan on small firms and their performance (Bhutta, et al., 2008; Fayyaz, et al., 2009; Zafarullah, et al., 1997) but there is no significant literature on entrepreneurial orientation in Pakistan especially related to small firms. This leads to insufficient understanding of key factors leading to success of small firms in Pakistan. Exploring this issue would be of benefit to all stake holders.

### **1.2.1 Problem statement**

Small firms act as backbone of developing countries' economy. It is important that such firms perform. Their performance is influenced by entrepreneurial orientation of their owner-managers. Literature suggests that firms owned by entrepreneurially oriented owner-managers perform better than those that are not. Thus there is a great need to study the extent of entrepreneurial orientation in these firms and the influence such orientation exerts on their performance. This study focuses on examining the various factors that influence small firm performance including entrepreneurial orientation and entrepreneurial marketing. This is done through the suggested framework (Figure 4.1), which includes antecedents, and two independent variables. First independent variable is entrepreneurial orientation and second independent variable is entrepreneurial marketing. Both entrepreneurial orientation and entrepreneurial marketing are vital in achieving high performance. Entrepreneurial marketing has been suggested by Stokes (2000). It represents marketing activities on the ground that owner-managers must perform in addition to being entrepreneurially oriented. Without these activities entrepreneurial orientation is not likely to yield any positive results (Stokes, & Wilson, 2010; Stokes, 2000).

Firstly the influence of entrepreneurial orientation and entrepreneurial marketing on performance will be investigated. Performance is measured in objective and subjective terms (Wiklund & Shepherd, 2005; Wiklund & Shepherd, 2003; Lumpkin & Dess, 1996). There is ample support in literature on the influence of entrepreneurial orientation and entrepreneurial marketing on performance of small firms (Stokes, & Wilson, 2010; Stokes, 2000; Acs, et al., 2005; Beaver, 2002; Amit, 1993).

Secondly the study will examine influence of antecedents on entrepreneurial orientation. It is argued in entrepreneurship studies that entrepreneurial orientation is influenced by several antecedents including age, education, experience and parents' experience, and environmental antecedents including government support, competition, culture, and industrial potential (Baker, & James, 2009; Gilmore & Carson, 1999). See Table 2.1. Both demographic and environment antecedents influence entrepreneurial orientation. For instance, age, education, experience and parents' experience influence entrepreneurial orientation. Similarly, environment antecedents influence entrepreneurial orientation (Stokes, & Wilson, 2010).

Thirdly study will investigate influence of entrepreneurial orientation on entrepreneurial marketing. In addition to entrepreneurial orientation, entrepreneurial marketing finds mention in small firm literature (Stokes, 2000; Gruber 2004; Hills, Hultman & Miles, 2007). Entrepreneurial orientation is not enough on its own. It must be accompanied with entrepreneurial marketing practices (Morris, Schindehutte & LaForge, 2002). It is argued that small firms cannot afford conventional marketing due to limited resources and know how. They can however do entrepreneurial marketing (Morris, Schindehutte & LaForge, 2002; Collinson & Shaw, 2001). Stokes (2000) presented a model for small firms based on entrepreneurial marketing. In the present study Stokes model is used to investigate whether firms having entrepreneurial orientation also have entrepreneurial marketing as a practical strategy.

Finally the study investigates mediating effect of entrepreneurial marketing between entrepreneurial orientation and business performance (Blessa & Ripolles, 2011; Kocak & Abimbola, 2009).



### **1.3 Research Questions**

This study seeks to answer the following research questions for owner-managed small firms in Karachi, Pakistan.

Q1: What is the influence of entrepreneurial orientation and entrepreneurial marketing on performance?

Q2: What is the influence of antecedents on entrepreneurial orientation?

Q3: What is the influence of entrepreneurial orientation on entrepreneurial marketing?

Q4: What is the mediating influence of entrepreneurial marketing in the relationship between entrepreneurial orientation and performance?

### **1.4 Research Objectives**

In answering research questions the study seeks to achieve at least four research objectives in the context of small firms in Karachi. These objectives are the following:

1. To examine influence of entrepreneurial orientation, and entrepreneurial marketing on performance.
2. To examine influence of antecedents on entrepreneurial orientation.
3. To examine influence of entrepreneurial orientation on entrepreneurial marketing.
4. To examine mediation influence of entrepreneurial marketing between entrepreneurial orientation and performance.

### **1.5 Significance of the Study**

This study is expected to contribute to theoretical, practical and policy-making perspectives.

The topic represents a new way of looking at influence of entrepreneurial orientation and entrepreneurial marketing on performance of owner-managed small firms in the context of a developing country. The study will highlight important issue of small firm performance in Pakistan which is vital for the country's economy and employment generation. It will address some of the reasons for small firm performance and lack of performance. Thus a hitherto unaddressed issue of why small firms fail will be addressed. This knowledge will be helpful for practitioners to apply in their management of small firms.

In the entrepreneurship literature there is an ongoing debate on what causes entrepreneurial behavior. There are several streams of research. One of them supports the notion that entrepreneurs are born. Others support effect of environment (Morris, et al., 1995). Still others support the notion that entrepreneurs have specific personality types. And some others think entrepreneurship can be learned, especially through education. Antecedents of entrepreneurial orientation will be investigated. Thus readers will understand influence of age, education, experience and parent' experience in performance and thus be able to do better planning for their firms. Similarly implications of environmental antecedents will be understood and help in better planning by responding to government support, competition, culture and industrial potential. They will be able to choose industry with greater potential and less competition creating better chances of success.

The study is unique in its use of Stokes (2000) model as part of the framework to explain performance. Stokes argues small firms cannot do conventional marketing and in order to succeed must resort to entrepreneurial marketing. This provides new ways for small firms to do marketing including bottom-up targeting, word of mouth, and incremental

innovation in their day to day running of the firm. They will be able to see the logic behind starting small and building up from there through personal contacts using small innovations along the way.

Academics will be able to plan further research in this area of vital significance for the country. They will be able to include more variables for entrepreneurial orientation, and entrepreneurial marketing for study. As Stokes model (2000) has been applied first time to this type of research, the study will open up more research activity on topic of entrepreneurial marketing for the small firms. Academics will be able to urge government to play a more effective role in providing all facilities to small firms. They will also try to act as change agents for creating culture for small business with higher acceptance in society. Further research can be planned based on the study findings and academics can refine the model and include more variables and new geographic areas. They will also be able to design education and training for small firms. Small firm advisers will learn which areas must be addressed in training for small firms. Entrepreneurship programs in schools and centers for entrepreneurship will be able to use information in their schools and encourage research and education in the field. This may also help to stir up research interest in the field which so far has been largely ignored.

Policy makers would be able to design policies to help small firms foster and grow.

Government will be able to create an enabling environment for the small firms in areas where they need help. By applying knowledge thus gained government should be able to help small firms better by providing infra-structure, advice and other support. The study also examines the influence of entrepreneurial marketing as mediator between entrepreneurial orientation and performance. It will examine Stokes (2000) claim that

entrepreneurial orientation by itself is not enough. It must be accompanied by practical activities on the ground, i.e., entrepreneurial marketing, without which entrepreneurial orientation will not play its full part.

Most studies on small firms have been carried out in the West. There are few studies in developing countries especially in Pakistan on the topic of small firm performance using entrepreneurial orientation and entrepreneurial marketing as variables. Thus the study will also test the notion that developed world concepts cannot be automatically applied to the developing world.

## **1.6 Scope of the Study**

This study will limit itself to owner-managed small firms (having between 6 and 50 employees) in Karachi. Pakistan is a large country with a population of about 200 million people with several large urban and rural areas. Karachi has been chosen for this study as it is the largest urban center with highest concentration of business. Karachi is also called ‘mini-Pakistan’. It includes people from all areas of the country who mostly come here to find employment. There are large industrial estates within Karachi having thousands of industrial units of all sizes including small ones. Karachi is the most populous city of Pakistan. It is also the second largest city in the world with a population of about 23.5 million and an area of approximately 3,527 sq. km. (1,362 sq. mi) (Karachi Chamber of Commerce and Industry, 2014).

Later studies have to work on larger samples including other cities and towns. This study will be the first step in the direction of research on this important segment of economy.

Due to limitations of time and resources it has been decided to restrict to Karachi city and

to owner-managed small firms. Also variables relating to entrepreneurial orientation are many. Only the most significant ones could be chosen for the study. Later studies can include other variables.

## **1.7 Definition and Description of Terminologies**

Following are some of the key terms often mentioned in the study along with their description:

### **1.7.1 Small Firm**

As defined in the government of Pakistan SMEs Policy May, 2007, a small firm is a firm with 6 to 50 employees with total assets (excluding land and buildings) up to PRs. (Pakistani Rupees) 30 million and with total annual sales up to PRs. 100 million. (<http://www.smeda.org/publications/index.php>). For the purpose of this study the first of these criteria is taken as a guideline to define small firm, i.e., small firms are firms with 6 to 50 employees.

### **1.7.2 Antecedents**

An antecedent is a preceding event, condition, cause, phrase, or word.

In statistics and social sciences, an antecedent variable is a variable that can help to explain the apparent relationship (or part of the relationship) between other variables that are nominally in a cause and effect relationship. In the present study antecedents of entrepreneurial orientation are the demographic (age, education, experience, parents'

experience) and environmental (government support, competition, culture and industrial potential) variables (Morisette, 2007; Harada, 2002; Zhao, 2005; Shindehutte, et al., 2001).

**a) Age**

Age of owner-manager (OM). Age of OM influences entrepreneurial orientation (Nichter, et al., 2009; Reijonen, et al., 2007).

**b) Education**

Education of OM. Education of OM influences entrepreneurial orientation (Runyan, et al., 2008; Bates, T. 2005).

**c) Experience**

Experience of OM. Experience of OM influences entrepreneurial orientation ((Nichter, et al., 2009; Altinay & Wong, 2011).

**d) Parents' Experience**

Experience of parents of OMs. Experience of parents of OM influences entrepreneurial orientation (Harada, 2002; Hausman, 2005).

**e) Government Support**

Government support in various forms influences entrepreneurial orientation (World Bank, 2005 and 2006; Beck et al., 2005; Tybout, 2000.)

**f) Competition**

Competition in the market influences entrepreneurial orientation (Wiklund, 2005; Sorescu et al., 2003; Chandy & Prabu, 2003).

**g) Culture**

Culture of the community influences entrepreneurial orientation (Morrison, 2006; Peng et al., 2000; Zhao, 2005; Drakopoulou, et al., 2007).

**h) Industrial Potential**

Industrial potential in the chosen industry influences entrepreneurial orientation (Goldmark, 2009; Morrison et al., 2006; Wyer et al., 2000).

**1.7.3 Entrepreneurial Orientation**

It is the tendency of an individual or firm for taking initiative in order to capture opportunities in the market to make profit or grow (Wiklund, et al., 2005). There are several variables categorizing entrepreneurs including innovation, risk-taking,

adaptability, pull motivation, internal locus of control, leadership, proactive-ness, etc. These may be in-born or acquired. There is much discussion in literature on entrepreneurship but there are still no clear definitions of the concept. (Smart & Conan, 2011; Rauch, et al., 2009; Runyan, et al., 2008). In this study entrepreneurial orientation includes innovation, risk-taking, adaptability, pull motivation, push motivation and proactive-ness.

**a) Innovation**

Innovation is the ability of the small firm to come up with new ways of doing things or with new product offerings in the market. Innovation influences performance (Robson et al., 2005; Laforet & Tann, 2006).

**b) Risk-taking**

Risk-taking is the ability of the OM to undertake activities which can result in substantial loss to him. Risk-taking influences entrepreneurial orientation (Pavic et al., 2012; McCarthy, 2000; McGrath, 2001).

**c) Adaptability**

Adaptability is the ability of the OM to adjust to the changing needs of the market in time to avail himself of the benefits of such change. Adaptability influences performance (Shindehutte, 2001; Pitt, 2000).



**d) Motivation (Push)**

Push motivation is the negative motivation of the OM to enter business in the absence of any other opportunity. Push motivation negatively influences performance (Gilad & Levine, 1986; Keeble et al., 1992; Orhan & Scott, 2001).

**e) Motivation (Pull)**

Pull motivation is the positive motivation due to which OM enters business. For instance if he likes to use his skills in business or he likes the challenge of business, etc. Pull motivation positively influences performance (Gilad & Levine, 1986; Keeble et al., 1992; Orhan & Scott, 2001).

**f) Proactive-ness**

It is the ability to size up the future events and take appropriate actions.

### **1.7.4 Entrepreneurial marketing**

Entrepreneurial marketing is the process of doing marketing in an entrepreneurial way. It is a hybrid between entrepreneurship and marketing. This is most suited to small firms (Jones & Rowley, 2011). It is also the organizational function of marketing by taking into account innovativeness, risk taking, proactiveness and the pursuit of opportunities without regard for the resources currently controlled (Kraus et al., 2010).

**a) Information Gathering**

It is the process of small firms using personal networks to get information about the markets and consumer needs. This is one of the tools available to small firms for entrepreneurial marketing. It positively influences performance (Howell & Sheab, 2003; Stokes, 2000).

**b) Incremental innovation**

Incremental innovation is a strategy within entrepreneurial marketing for small firms whereby they make small increments at a time and avoid big innovations (Bhaskaran, 2005; Robson et al., 2008; Drucker, 1973)

**c) Bottom up targeting**

When a firm is targeting the bottom end of the market and later moving toward the higher end, it is called bottom up targeting (Stokes, 2000).

**d) Word of mouth**

This is a tool used mostly by small firms to market their products. It is done through building personal relationships (Kraus et al., 2010).