

The impact of corporate entrepreneurship on the SME performance: Does the organizational culture of UAE based international SMEs matter?

¹Majid Ibrahim Mohammed Abdullah Al Zarooni, ²Prof. Dr Bashawir Bin Haji AbdulGanni

¹International Business Department, school of international Business, University of Utara Malaysia

²International Business Department, school of international Business, University of Utara Malaysia

ABSTRACT- The main purpose of the study is to provide a theoretical insight on the relationship among the corporate entrepreneurship, organizational culture and performance of UAE based international SMEs. The study has broached an argument that the corporate entrepreneurship has significant impact on the SME performance. Meanwhile, the study has argued that the organizational culture moderates the relationship between the corporate entrepreneurship and SME performance of UAE based international SMEs. The contribution of the study are two folds, firstly the study argues corporate entrepreneurship as an antecedent of SME performance, secondly the study has argued organizational culture as a moderator. The study is among the pioneer study on the issues related corporate entrepreneurship, organisational culture and SME performance of UAE based international SMEs.

Keywords: corporate entrepreneurship, organisational culture, SME performance, UAE

Article Received: 18 October 2020, Revised: 3 November 2020, Accepted: 24 December 2020

The UAE Plan 2021 highlighted the role of innovation as the main driver of SME performance and productivity in the UAE. Nevertheless, the level of innovation among the SMEs in UAE is comparatively low to that in high-income nations but similar to or greater than the level in middle-income nations. Although various national innovation initiatives have been established to improve this situation, a majority of the SMEs were non-participative. There are also the issues of poor management capabilities and lack of skillful employees, fund and time to carry out research and development (R&D) activities and commercialization of products. The SMEs also refuse to take part in technology upgrading initiatives which they perceive as costly. Such issues can be overcome by equipping the SME owners/managers with the advantage of knowledge on innovation which would enable the enterprises to compete on a larger scale (Rosenbusch, Brinckmann, & Bausch, 2011).

Most organizations fail to achieve their objectives due to lack of entrepreneurial role models and experts within the organization (Tijssen, 2006). These experts are expected to have the ability of understanding the dynamic nature of the environment, adopting market-driven concepts by being proactive and futuristic, and also addressing risk management. The task of

responding and transforming is significantly facilitated by leaders that are capable of providing advanced policies for the betterment of the organizations (KianiMavi, KianiMavi & Goh, 2016; Masouleh & Allahyari, 2017; Ratten & Ferreira, 2016). It is clear that organizational performance is directly related to the overall individual performance (Rotundo & Sackett, 2002) and that SMEs are influenced by their leadership (Altbach & Salmi, 2011). Hence, understanding SMEs can be linked to how well their leaders are discharging their duties. The leaders' performance is vital in explaining efficiency and effectiveness which directly impact group performance and consequently that of the overall institution (Hackman, 2002; Muijs, 2011). Hence, to boost SME performance in the UAE and to improve their significance in today's environment, understanding their leaders' performance is vital.

In essence, given the significance of SMEs for economic development, the need for more studies in understanding the nature of SMEs and factors that can enhance their performance is highly emphasized (Ololube, Dudafa, Uriah & Agbor, 2013). Specifically, the crisis faced by SMEs in the UAE is worsening due to their leaders' inability to understand, prepare and respond to the dynamism of today's environment. Moreover, studies

have consistently neglected the role of leaders in improving organizational performance, despite their pivotal role in the private sector. Hence, there is a need for a paradigm shift by identifying new sources of financing and more flexible organizational forms (Aleixo, Leal, & Azeiteiro, 2016). To achieve the needed change, the SME sector requires people who do not identify with the formal role of a leader to engage in leaders.

Numerous theories have been put forward by scholars about the influencing factors to firm performance including interactions and dynamic adjustments between environments, strategies, structures and resources. Porter (1985) in his research detailed that firm performances are different and varying in degree with different types of gained competitive advantages. However, studies have shown that an organization that employs strategic orientations such as entrepreneurial orientation and strategic planning practices achieves superior performance and expansion than those that are more traditional and conservative (Baker & Sinkula, 2007; Okpara & Kabongo, 2009b). It is argued that a strong strategic orientation such as entrepreneur orientation facilitates a sense of balance between incremental and far-reaching innovation by changing the main concern towards far-reaching innovative actions. As in case of UAE, the International performance of SMEs are on decline.

Besides, there is still paucity of research with respect to how entrepreneurs use resources at their disposal to enhance organizational performance (DeGeest, Follmer, Walter & O'Boyle, 2015) since it is generally believed that resources alone would not guarantee organizational success (Sirmon, Hitt & Ireland, 2007; Sirmon & Hitt, 2003). Moreover, DeGeest et al. (2015) stated that relatively little is known about the process and how managerial decisions such as SI affect the use of organizational resources to ensure growth and survival. Also, many studies are more concerned about factors that

led corporate entrepreneurship to neglect the mechanism through which it is conceived, nurtured and pervaded into action in the organization (Tang et al., 2015; Turner & Pennington, 2015).

Furthermore, individual characteristics have been established to influence firm activities; hence, we argue that OC functions significantly in determining the goals, processes and structure that will be initiated and executed by leaders in an organization (Finkelstein, Hambrick & Cannella, 2009; Hambrick, 2007). Contextually, studies on organizational performance and its determinants were largely restricted to developed nations such as the United States (Carter, D'Souza, Simkins & Simpson, 2010; Robb & Watson, 2012), the United Kingdom (Higón & Driffield, 2011), developing nations such as Malaysia (Bin & Abbas, 2013; Hassan, Hassan, Mohamad & Chaw Min, 2012) and India amongst others (Bhatnagar, 2006; Girma & Vencappa, 2014). Hence, this suggests that more studies are needed in the Asian context, especially in the UAE considering its position in the Asian continent. Although several studies have examined SMEs performance in the UAE (Abdulkareem et al., 2012; Gberevbie, 2010; Oghojafor, Kuye and Sulaimon, 2011; Okuwoga, 1998; and Oseni, 2011), very few had explored the performance of SMEs in the same context. Moreover, no reference has been made to the combined variables in this study's model. Based on the above issues, shortcomings and suggestions of previous studies, a paradigm shift by SMEs and their leaders is needed for them to play their expected developmental role of societal renewal towards economic prosperity. This is especially so when leadership efficacy has been identified as one of the major factors influencing performance (File & Shibeshi, 2011).

The relationship between Corporate Entrepreneurship and SMEs Performance

Amin et al. (2016) argued that customer-oriented capabilities can be enhanced via the implementation of TQM practices of which core strategy is to fulfill the needs and expectations of customers via continuous and comprehensive organizational improvements. The global business environment of today is characterized by rapid globalization, market liberalization, highly advanced technologies, and inconsistent customer demands.

Another challenge facing SMEs in the current business environment is the rapidly changing customer demands driven by rapid technological advancements. Customers today are highly knowledgeable and conscious of their rights with the ability to express their dissatisfaction with the offered products and services. Therefore, today's customers are demanding for more innovative and high-quality products and services that are updated with the latest technological features.

In other words, TQM and EO are considered as intangible capabilities and resources due to their role in changing the culture within an organization and are deemed as rare and difficult to be imitated by competitors. Therefore, SMEs are forced by the economic and technological factors to adopt and efficiently implement such strategic orientation to create their desirable competitive advantage. In addition to that, Thai Hoang et al. (2006) argued that although TQM strategies are important, they cannot create a sustainable competitive advantage for an organization without the integration of other innovative strategies. This study aims to bridge this gap by investigating how the integrated effect of TQM and EO can better explain the variance in the organizational performance variable.

Literature reports had produced inconsistent and ambiguous results about the operationalization of corporate entrepreneurship as indicated by Kreiser et al. (2019). Various opinions about the link between corporate entrepreneurship and firm performance can be found in literature. Moreover, several researchers have presented the fact that corporate entrepreneurship is positively linked to organizational performance in the national context. In this regard, the work of Kreiser et al. (2019) provides evidence that in the context of the

United States, corporate entrepreneurship has a positive correlation with business performance. Similarly, the work of Stam and Elfring (2008) provided empirical support about the influence of corporate entrepreneurship on business performance in the context of the Netherlands. Kreiser et al. (2019) also found that corporate entrepreneurship and business performance are positively correlated in the context of China. Thai Hoang et al. (2006) in conducting a meta-analysis also supported the finding that corporate entrepreneurship adds significant importance to business performance. Lastly, empirical evidence cited the importance of corporate entrepreneurship in terms of its contribution in improving overall performance. Zahra et al. (2015) and Zahra and Covin (1995) have provided empirical evidence of the importance of corporate entrepreneurship in improving financial and non-financial performance. Further to this, more recent studies on corporate entrepreneurship have supported this relationship. Yet, available literature also empirically highlights inconsistent results about the relationship between corporate entrepreneurship and business performance hence giving rise to the need for further investigations on this relationship particularly in the context of the banking sector. Based on the literature, this study draws the following hypothesis:

H1: Corporate entrepreneurship has significant impact on the SMEs performance.

Organizational Culture and Business Performance Relationship

Sin and Tse (2000) cited a significant correlation between organization of work and decision-making. They found that short-term performance is determined by culture. Similarly, Ahammad et al. (2016) in their replicated study based on the work of Gordon and DiTomaso (1992) reported strong culture as a predictor of short term organizational performance. The work of Eisend et al. (2016) is based on traits approach discussing involvement, consistency, adaptability and mission. The integration of these traits transpires effectiveness; for this purpose, the organizational performance measure is based on a set of subjective performance measures which include new product

development, market share, sales growth, cash flow and profitability.

Sin and Tse (2000) indicated that culture profoundly affects organizational performance based on an adapted organizational culture profile (OCP). The OCP contains “value statements” i.e. risk taking, being careful, being competitive, secure employment, autonomy, fairness, team-oriented and others, which are interrelated with organizational performance. Ahammad et al. (2016) stated that compared to service firms, the correlation between organizational culture and organizational performance is greater in manufacturing firms. However, in studying the performance implications of organizational culture in Singaporean companies, Ahammad et al. (2016) reported a positive correlation between innovation and cultural strength in the insurance industry. According to Eisend et al. (2016), there is a close relation between management practices which foster participation, provide autonomy, and enhance creativity and organizational performance. Eisend et al. (2016) magnified this argument by stating that firms with advanced human resource practices can outperform firms that practice otherwise. The authors further cited that despite the many anecdotal conclusions made on the implication of organizational culture on performance, more empirical investigations on the relationship are being carried out. This growing approval of organizational culture is driven by the notion that it can boost financial performance. Ahammad et al. (2016) justified the significance of organizational culture as it is the main source of the firm’s competitive edge. Denison (2000) justified the crucial role of culture in the survival and sustainability of an organization by examining family and non-family businesses. Additionally, in that given research, it was concluded that the sustainability of any particular business is strongly linked to a positive culture. There is mature evidence available in past literature that supports the positive relationship between organizational culture and business performance. Such studies found that organizational factors can double the variance explained in the profit rates. Apart from organizational culture, business performance is also found to be influenced by TQM, business process re-engineering, organizational learning, knowledge management, leadership, and ethics.

Despite indications that organizational culture is a crucial tool for determining organizational performance, empirical investigations on the relationship are still scarce. Organizational culture is also indicated to be directly or indirectly linked to organizational performance. In addition to this, past studies evaluating the effectiveness of organizational culture had been conducted in many different contexts such as Taiwan, Greece, Australia, China, Hong Kong, Japan, India and many others. However, no prominent evidence on the assessment of organizational culture in the banking sector of Pakistan has been found in existing literature thus requiring further assessment on the matter (Moldovan & Macarie, 2014). This study aims to fill this gap by examining the moderating effect of organizational culture. Hence, this study enriches the related literature by examining how organizational culture affects the interaction between corporate entrepreneurship and organizational performance. Thus, the following hypothesis is proposed:

H2: Organizational culture has significant impact on the SMEs performance.

Organizational culture as a Moderator

This study aims to determine the moderating role of organizational culture in the relationship between corporate entrepreneurship and business performance. Organizational culture was chosen as the moderating variable because: 1) Umrani et al. (2018) had established an integrative model that explains the positive correlation between a firm’s entrepreneurial pasture and its environment, strategies, internal factors and performance, 2) Umrani (2018) also suggested the existence of a correlation between corporate entrepreneurship and organizational performance, 3) Zahra (2013) highlighted the lack of convincing evidence to support the effect of corporate entrepreneurship on organizational performance, and 4) there are inconsistencies and vagueness in the operationalization of corporate entrepreneurship from the organizational level as proven by Taştan (2015). There are numerous varying opinions about how corporate entrepreneurship affect firm performance. Based on these inconsistencies, BAKI, N. U. (2016) suggested the use of a moderating variable to address the

ambiguous correlation between a predictor and a criterion variable.

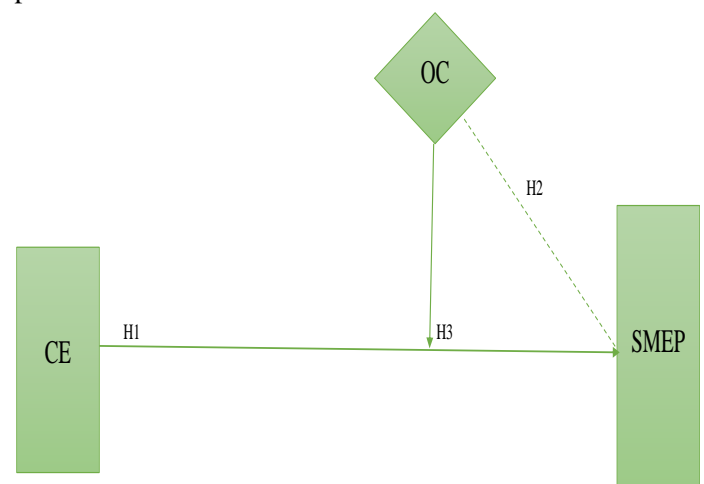
Despite the numerous investigations on the direct link between few improvisation and performance (Bakar et al., 2015a), the findings are characterized with inconsistency. For example, some studies reporting a significant direct relationship including Ozemoyah, U. S. (2016) found no significant relationship between satisfactory outcome success and performance. However, studies have established a relationship with performance through indirect means using a moderating variable. Similarly, studies on ESE and performance have reported mixed findings; some reported a positive relationship while others found a negative correlation. However, many studies have identified some differences with regards to the level of their ESE with some having a higher level than others; therefore, some will have a higher risk-taking and opportunity identification than others. In addition, the relationship between TQM is cyclical which can enhance or reduce performance as a result of differences in method of acquisition. Based on these inconsistencies and the arguments presented above, the present study includes organizational culture as a moderating variable in the relation between strategic improvisation, TQM and performance (Huang et al., 2018).

Organizational culture (OC) refers to the actual behavior of employees within the organization which affects how they do things within the system. According to Huang et al. (2018), OC influences performance and employee commitment. Taştan (2015) asserted that OC is a set of values and beliefs shared by employees within a particular organization. These beliefs, norms and expectations serve as the main factor in conducting the behavior of an individual within the organization and what differentiates them from other organizations. OC is very important in explaining the way and manner in which things occur in an organization; in fact, organizational culture is the organization's personality. OC has been linked to organizational performance in many studies (Huang et al., 2018). In fact, the impact of organizational culture on performance has been associated with the effects of individual behavior, which is the result of accumulated experience and adaptation with the environment. Hence, there is a need for all

members of the organization to have the surrounding culture embedded in their mind.

In addition to the reasoning provided for selecting organizational culture as the moderating variable, this section additionally provides the following justifications to propose organizational culture as a moderating variable in the relationship between the dimensions of corporate entrepreneurship and business performance. Firstly, it is assumed that entrepreneurship which affects performance is likely to vary across different organizations. Rather than driving performance independently, it is continuously interacting with other organizational factors. Secondly, Zahra (2015) also mentioned that performance is multidimensional; similarly, entrepreneurship has many different postures, and each can influence the different performance dimensions in different times. Therefore, it is suggested for the positive association between the entrepreneurial postures and company performance to be investigated. Lastly, according to Mac and Evangelista (2015), the components of corporate entrepreneurship can individually generate varied results. The present study uses organizational culture as a moderating variable in the relationship between the dimensions of corporate entrepreneurship and business performance drawing upon the recommendations made in past studies on the hypothesized relationship. Thus, the following hypothesis is formulated:

H3: Organizational culture moderates the relation between corporate entrepreneurship (CE) and SMEs' performance.



Conclusion

According to the Resource Based Theory (RBT), a firm's internal resources determine its export performance; by paying more attention on internal resources, the firm will be able to improve its performance and support strategies. Similarly, SMEs can use this strategy to creatively find opportunities outside of their domestic market and exploit it to create competitive advantage (Zahra & George, 2002). This involves making choices between competing expansions and selecting strategies that depend on the market situation, the firm's resources and managerial goals and vision (Reid, 1983). Due to business internationalization, exporting has become an important and necessary strategic option, and it is important for the SMEs to start looking into foreign markets to capture and sustain distinct opportunities (Tiang, 2015). Thus, it is crucial to gain insight of factors that may influence the SMEs' decision to enter the export market as research on SME internationalization in the context of the UAE is still relatively new. The current business environment competes on the basis of the firm's ability and available resources including its skills, expertise and ability to leverage on its competitive capabilities and to strategically mobilize its valuable assets. A firm's resources and capabilities in organizational processes will improve its performance particularly in formulating strategies and determining profit. Based on the resources-based theory, the collection of a firm's internal resources and capabilities may generate competitive advantage that leads to superior performance (Singh & Mahmood, 2014).

Drawing upon the RBV and contingency theories, this study proposes organizational

culture as a possible moderating variable in the relationship between corporate entrepreneurship, its dimensions and business performance due to these reasons: firstly, the contingency theory suggests for organizations to properly align their strategies and other variables to support business performance (Selto, Renner, Young, 1995; Van de Van & Drazin, 1985). Secondly, there is an apparent inconsistency with regards to the evidence empirically derived to prove the relationship between corporate entrepreneurship and business performance (). Barron and Kenny (1986) hence suggested the use of a moderating variable to revitalize the inconsistent results related to the relationship between the two latent variables.