

Entrepreneurial Orientation and Financial Performance of Public Sector Commercial Banks – An Impact Analysis

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Abstract

The ongoing globalization, innovation and intense competition are challenging organizations to look for the means of survival. They are likely to be benefitted from adopting entrepreneurial orientation. Entrepreneurial orientation refers to the strategy making processes that provide organizations with a basis for entrepreneurial decisions. The present study focuses on the relationship between the dimensions of entrepreneurial orientation and financial performance.

Keywords: Entrepreneurial Orientation, Financial Performance, Risk Taking, Competitive global environment

Introduction

Entrepreneurship is the art or willingness to take risks, develop, organize and manage innovative business ventures and models in a competitive global environment that is constantly evolving. It is an important engine of growth in the economy. To maintain competitive advantage, corporations must learn to continuously create, scale up, and profit from entirely new ways of doing business. They must excellence in their existing value proposition and creativity in generating new value towards existing and new customers. Entrepreneurial orientation concept has been used to define an organization's guarantee to the intensity of entrepreneurial actions. This approach suggest that entrepreneurial organization are disposed to entrepreneurial orientation practices like taking risks and exploration of new business prospects proactively more than other types of organization (Mintzberg, 1973).

Entrepreneurial orientation by the companies has generated considerable attention in research due to its importance to corporate vitality and generation of wealth in today's global context and facilitates the companies' effort to exploit its current advantages, opportunities and competencies required to pursue them successfully. This also contributes to the evolution of corporate strategy by building new opportunities that enable recreation foster strategic change and increases company's performance. The present study focuses on entrepreneurial orientation by commercial banks and its effect on the financial performance of public sector commercial banks.

The main objective of this study is to examine the relationship between entrepreneurial orientation and financial performance of Public Sector Commercial Banks. The specific objectives are outlined as follows:

- To determine the effect of proactiveness on the financial performance of public sector commercial banks.
- To determine the effect of risk taking on the financial performance of public sector commercial banks.
- To determine the effect of innovativeness on the financial performance of public sector commercial banks.
- To determine the effect of competitive aggressiveness on the financial performance of public sector commercial banks.
- To determine the effect of autonomy on the financial performance of public sector commercial banks.

Review of Literature

In the last few years, research on entrepreneurial orientation of companies has increased significantly. However some authors consider that there are some aspects that need to be understood clearly (Hornsby et al , 2009). Kuratko and Audrich, 2013 stated that, ‘the theoretical and empirical knowledge about the domain of entrepreneurial orientation and entrepreneurial behavior on which it is based are key issues that need better understanding’. Moreover some of the articles focus on specific area of corporate entrepreneurship phenomenon and do not provide a global perspective on the literature in field.

Hence, this study will be a valuable contribution to the existing body of knowledge since company’s ability to enhance the entrepreneurial behavior is very much determined by its entrepreneurial orientation.

Entrepreneurial Orientation

One of the important views linking entrepreneurship to strategies of companies is entrepreneurial orientation, Miller (1983). Entrepreneurial orientation is a key concept that refers to the processes, practices and decision making styles of organizations that act entrepreneurially believes that the organizations with entrepreneurial orientation strategy possess characteristics such as innovation, risk taking and initiative which play the main role in achieving the organization’s strategic position in the competitive environment. Generally, entrepreneurial orientation is a key concept in understanding whether a company has adopted entrepreneurial activities .The features of EO can be derived from a review and integration of the strategy and entrepreneurship literatures (Covin & Slevin, 1991, Miller 1983). Based on Millers conceptualization, three dimensions of EO have been identified and used consistently in the literature: innovativeness, risk taking and proactiveness. Innovativeness is the willing to adopt novelty and uniqueness through experimentation and creative processes that aim at developing new processes, products and service.

Risk taking refers to a firm's disposition to seize an opportunity even when venture success is unknown and not guaranteed and to act confidently without knowing the magnitude of the consequences (Lumpkin & Dess, 1996). Pro-activeness is the act of shaping the competitive environment by introducing new products, new administrative techniques or new technology (Miller & Friesen, 1978).

Lumpkin and Dess (1996) suggested that two additional dimensions were salient to entrepreneurial orientation. They identified competitive aggressiveness and autonomy as additional components of the EO construct. Autonomy is the degree to which an individual is given substantial independence, freedom and discretion in performing a task, such as determining procedures to follow and scheduling work.

Research Design- Nature of the Study

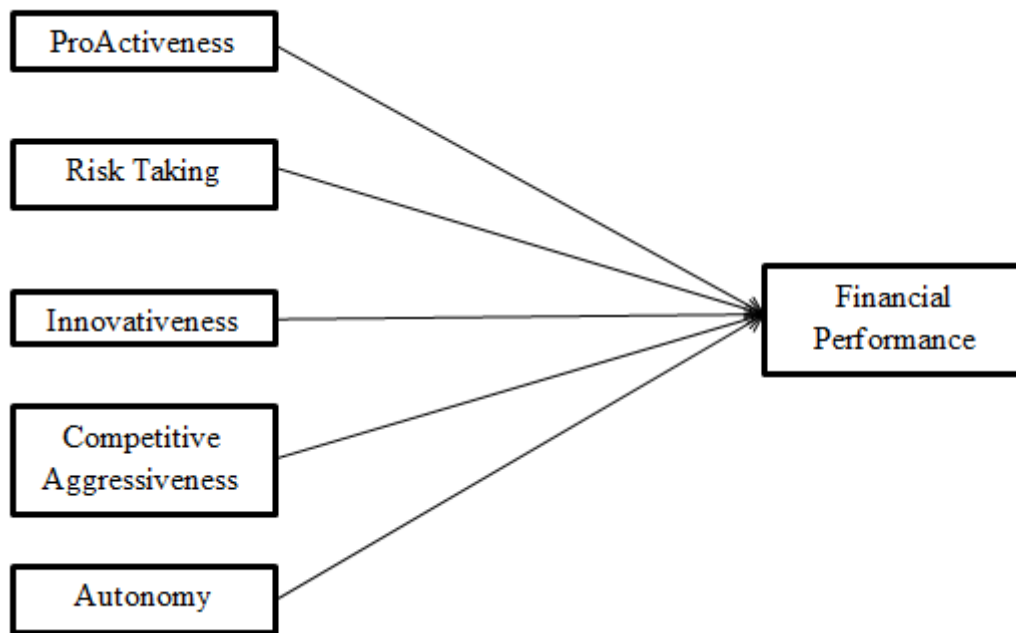
This is an empirical study based on the survey method. The Secondary data was collected from relevant documents, records and websites. Primary data was collected from middle management, top management and executives of public sector commercial banks in the city of Chennai. **Variables used in the Study**

The Independent variable entrepreneurial orientation comprises five factors namely, innovativeness, proactiveness, risk taking, competitive aggressiveness and autonomy and the dependent variable is financial performance of public sector commercial banks.

Sample and Statistical Techniques

Public sector commercial banks like Indian Bank, Indian Overseas Bank and Canara Bank were selected and employees from middle management, top management and executives of these banks were taken as samples. A structured and comprehensive questionnaire was used in the study to collect the required data. The respondents were asked to answer 56 questions related to entrepreneurial orientation and financial performance. The questions were built on five points of the Likert scale (1. Strongly agree; 2. Agree; 3. Neutral; 4. Disagree; 5. Strongly disagree). Multiple regression analysis was used to test the effect of the independent variable (entrepreneurial orientation) on the dependent variable (financial performance). To check the reliability of the data, Cronbach's Alpha was used to measure internal consistency; the result shows that the questionnaire has relatively high internal consistency with 0.977. Regression analysis was used to test the relationship between dimensions of entrepreneurial orientation and financial performance of public sector commercial banks in Chennai.

Research Model



Hypotheses of the Study: Based on the model the following hypotheses have been framed

- There is a significant relationship between proactiveness and the financial performance of public sector commercial banks.
- There is a significant relationship between risk taking and the financial performance of public sector commercial banks.
- There is a significant relationship between innovativeness and the financial performance of public sector commercial banks.
- There is a significant relationship between competitive agressiveness and the financial performance of public sector commercial banks.
- There is a significant relationship between autonomy and the financial performance of public sector commercial banks.

Results and Discussion

Table 1.1 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1415.994	4	353.999	33.412	.000(a)
	Residual	1006.516	95	10.595		
	Total	2422.510	99			

a Predictors: (Constant), Autonomy, Competitive Aggressiveness, Pro Activeness, Innovativeness, Risk Taking

b Dependent Variable: Financial Performance

Table 1.2

Coefficients of Variables of Entrepreneurial Orientation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.122	3.076		2.316	.023
	Pro Activeness	.289	.068	.317	4.268	.000
	Risk Taking	.463	.296	.391	3.566	.001
	Innovativeness	.689	.306	.393	3.253	.001
	Competitive Aggressiveness	.467	.096	.519	4.843	.000
	Autonomy	.488	.092	.498	4.000	.000

- a Dependent Variable: Financial Performance

R square is 0.94, $f = 444.26$, $p = 0.000$

The regression model explained 94% of the total variance of the dependent variable ($R^2 = 0.94$).

The Analysis of Variance (ANOVA) shows the difference in variables of entrepreneurial orientation and financial performance. The analysis shows that there is difference with an F score of 444.26 and significance (0.000) well beyond the < 0.05 standard.

Variables, proactiveness ($t = 4.268$, $p < .000$), innovativeness ($t = 3.253$, $p < .001$) followed by competitive aggressiveness ($t = 4.853$, $p < 0.000$), autonomy () and risk taking ($t = 3.566$, $p < 0.001$) have emerged as significant positive regressors of the dependent variable financial performance. These results imply that there is a significant relationship between variables of entrepreneurial orientation and financial performance of public sector commercial banks.

Conclusion

One of effective strategies for banking companies to be able to adapt to strive dynamically is entrepreneurial orientation. Such a change in strategy is in response to a need that has arisen due to widespread changes and challenges in the globally competitive environment. The banking industry is fast changing industry, hence it is important for commercial banks to look at efficient and effective means of being proactive, innovative, autonomous, competitive aggression and able to make decisions in implementing new ideas in order to capture new markets. The findings of the study has revealed that variables of entrepreneurial orientation increases financial performance of commercial banks.

Future research can be carried out to test entrepreneurial orientation strategies in manufacturing and insurance sector. This would allow for comparisons between industries and would provide the opportunity to identify a number of industries effects ranging from competitive aggressiveness to different stages of market lifecycle and how they impact financial performance.

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