

Enhancing SMEs Performance Through Innovative Cultural Values in Pakistan

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Abstract: The purpose of this study is to explore the factors affecting SMEs performance in Pakistan. Survey approach was used to collect response through 60 usable questionnaires from SMEs CEOs/owners/senior managers in Punjab as one of the largest populated province of Pakistan through simple random sampling. The research design consist of developing hypothetical framework with innovative cultural values set as an independent variable to test SMEs performance as a dependent variable. Validity and reliability of the scale were assessed by experts and also a small set of the data was used for analysis through SPSS version 20.0 and PLS 2.0. The results of the research confirmed the validity and reliability of the instrument used in the pilot study.

Key words: Values, innovative culture, performance and SMEs

INTRODUCTION

In today's prompt time, every country considers Small and Medium Enterprises (SMEs) as the ample ones because SMEs let the utilization of the raw resources from every part of a country into a productive way (Brunswick and Vanhaverbeke, 2014). SMEs drive every country to become an accelerative one in a progressive perspective which eventually generates a synergic effect (Ismail *et al.*, 2014; Wang *et al.*, 2007). These enterprises also participate immensely in the Gross Domestic Product (GDP) of a country (Oke *et al.*, 2007). Regardless of the developed nations, if a glimpse is given at the GDPs of the emerging countries SMEs significance is more evident (Honig and Samuelsson, 2011). SMEs in Pakistan play a very significant role in the GDP. Although, Pakistan is a developing country but SMEs contribute 30% share in the GDP (Syed *et al.*, 2012).

Pakistan's economic base accounts heavily on SMEs. Therefore, Pakistan's government is deliberately evolving and setting more efforts to generate better performance of SMEs (Mahmood *et al.*, 2015). Now a days, not only the academicians are working for engendering the better performance of SMEs but Small and Medium Enterprises Development Authority (SMEDA) of Pakistan is also working perpetual for the enterprises better performance and incorporating such policies and strategies which can increase their performance (Mahmood *et al.*, 2015; Wasim and Khan, 2014).

Prior studies revealed that there are numerous factors which enhance the performance of SMEs but the most

important factor to increase the performance of SMEs is innovation (Maladzi *et al.*, 2012; Oke *et al.*, 2007; Saeed *et al.*, 2015; Soto-Acosta *et al.*, 2015). There are many other factors which are indulged in provoking better performance from SMEs related to innovation like innovative culture for the better outputs and yield (Al-Ansari, 2014; Cantwell, 2001; Courtright and Smudde, 2009; Hafeez, 2012; Maladzi *et al.*, 2012; Mishra and Program, 2008; Nnanna, 2009).

Scholars recommended that the firms with the high levels of innovation would always experience the result with the greater organizational outcomes and the better performance of the organizations in the larger organizations (Bloch, 2008; Bourgeois, 1980; Bruland and Mowery, 2004; Cantwell, 2001). But, this concept with respect to the implementation in smaller enterprises is a bit different because SMEs are having the usage of more raw, crude and basic items of a country; and if the innovative culture is embedded in those smaller SMEs then the output generated from those raw affluences will be more different, unique, distinctive, exclusive, rare and matchless (Bougrain and Haudeville, 2002; Hadjimanolis, 1999; Hall *et al.*, 2009; Saeed *et al.*, 2015; Zeng *et al.*, 2010; Zhu *et al.*, 2012). For this purpose, this study was conducted; focusing more on building up the innovative cultural values in increasing the SMEs performance working in Pakistan.

Literature review

Performance of SMEs in Pakistan: Organizational performance is one of the vital issues for every

organization (Claudius and Barbosa, 2012). Performance is defined in many ways but few researchers have titled performance as a deliberate, strategic and a unified way to deliver the continual achievements to organizations by refining the productivities of the people who work in them (Armstrong and Baron, 1998; Dharmadasa, 2009; Mahmood and Hanafi, 2013). The purpose of organizational performance studies is to convert the raw potential of human resource into output by removing intermediary obstacles as well as motivating and refreshing the human resource (Hamann *et al.*, 2013; Honig and Samuelsson, 2011; Morgan and Strong, 2003; Oke *et al.*, 2007; Ridwan and Marti, 2012). An organization's competitive capacity can be increased by building up strong people, effectively managing and developing people which is in crux the real performance management (Ahmad, 2012).

Scholars say that every organization either larger or smaller organizations define performance differently and that different defining way is the parameter to measure the organization's output (Delisle, 2004; Morgan and Strong, 2003; Skokan, Pawliczek and Piszczur, 2013). Likewise, Javier has defined performance as equivalent to the famous 3Es (economy, efficiency and effectiveness) of a certain program or activity (Javier, 2002). Many researchers have defined organizational performance for the smaller organizations as the ability of the organization to achieve its goals and objectives (Claudius and Barbosa, 2012; Pushpakumari and Watanabe, 2009).

SMEs performance in Pakistan is the focus of this study. As SMEs are the core of every country and plays as a spine for every country which is obvious from Gross Domestic Product (GDP) of many countries like China and Europe (Muller *et al.*, 2014; Zhu *et al.*, 2012). In Pakistan, SMEs are also in major focus because of the obvious participation of them in GDP which is 30% (Syed *et al.*, 2012). Realizing the significance of SMEs, the major focus is not only to promote SMEs but to enhance SMEs performance in a better and positive mean which can be done through numerous means (Beck and Demircuc-Kunt, 2006).

Thus, enhancing SMEs performance is a key to success for every country which is aided in many conducts suggested by many scholars in their studies (Courtright and Smudde, 2009; Delisle, 2004; Dobni, 2010; Swierczek and Thai, 2003; Truijens, 2003). SMEs performance in Pakistan is done essentially through gigantic governmental support, through the trainings of SMEDA, directorate of industries of every province in Pakistan, trade shows and through several other practices in which the major focus is to promote, sustain and to mainly improve the performance of SMEs (Ali, 2013;

Hafeez, 2012; Saeed *et al.*, 2015; Ul *et al.*, 2013; Wasim and Khan, 2014). This study is a step towards enhancing SMEs performance in Pakistan through the influence of innovation.

Innovative Cultural Values: Numerous authors have recommended various methods to improve SMEs performance in Pakistan (Batool, 2011; Mahmood *et al.*, 2015; Qureshi, 2012; Syed *et al.*, 2012). Pakistani government has realized the significance of SMEs for a country, the government and directorate of industries major focus is not only to promote the existence of SMEs but to enhance SMEs performance (Ismail *et al.*, 2014; Mendoza, 2015; Sajjad *et al.*, 2015). Studies manifest that SMEs performance increases when innovation is introduced in them (Bougrain and Haudeville, 2002; Hadjimanolis, 1999; Oke *et al.*, 2007; Salehi and Roshandel Arbatani, 2013; Soto-Acosta *et al.*, 2015; Zeng *et al.*, 2010; Zhu *et al.*, 2012). Innovation is the tool for enhancing the performance. Innovative SMEs not only adapt to the environmental change, but also use their resources and skills to create new environmental conditions, e.g. by introducing new products or services never offered previously (Claudius and Barbosa, 2012). Innovations are means of providing these internal or external changes and are, therefore, a means of maintaining or improving organizational performance (Abouzeedan, 2011; Batool, 2011; Cantwell, 2001; Enterprises, 2005; Veskaisri *et al.*, 2007).

Innovation influences SMEs performance (Dharmadasa, 2009b; Hall *et al.*, 2009; Zeng *et al.*, 2010). Based on this premise, SMEs enriched with innovative cultural values are considered to increase their performance more is the aim of this study. Innovative cultural values in an organization means an organization filled with such cultural values of innovation where every employee who is creative, a good learner, a curious for creativity, ready to take positive decisions, an optimistic and so on (Rao and Weintraub, 2013).

Innovative cultural values determine such values, decisions and priorities, which are shown in spending their time and money for building up an innovative culture (Ayiecha and Senaji, 2014; Raj and Srivastava, 2014; Silva, 2014; Zhang *et al.*, 2015). Innovative cultural values of SMEs are represented in themselves, in their doings, as well as how they invest instead of stating in their annual reports and CEOs notes (Thompson, 2006; Wisdom *et al.*, 2014; Wu, 2006). Innovative cultural values are manifested in organizations in such a way that how the employees of the organization spend and behave in respect of how they express (Silva, 2014). According to Churchill (2012), innovation has cultural values in an organization. These

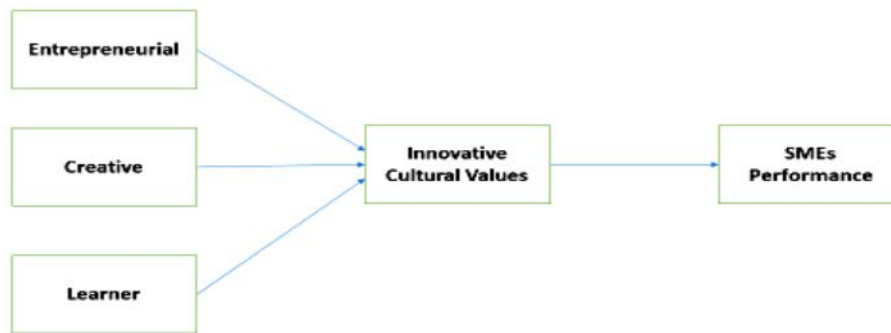


Fig. 1: Research framework

innovative cultural values are represented in three forms: entrepreneurial values, creativity value and learning value (Weintraub and Rao, 2014). Innovative cultural value is defined as the such cultural value of a total or relative or ethical one, is the assumption of which is built on the basis for innovative action (Rao and Weintraub, 2013).

For studying the relationship between SMEs performance and innovative culture values, this study posits the four hypothesis, first one is the main. However, the other hypotheses H_{1a} , H_{1b} and H_{1c} are derived from:

H₁ hypothesis:

- H_1 : Innovative cultural value has a positive effect on SMEs performance in Pakistan
- H_{1a} : Entrepreneurial trait as an innovative cultural value has a positive effect on SMEs performance in Pakistan
- H_{1b} : Creativity as an innovative cultural value has an effect on SMEs performance in Pakistan
- H_{1c} = Learning as an innovative cultural value has a positive effect on SMEs performance in Pakistan (Fig. 1)

MATERIALS AND METHODS

This study analyzes the relationship between the innovative cultural values and SMEs performance in Pakistan. The measurements were adapted from different authors to use in this study (Churchill, 2012). Measurements for innovative cultural values were adapted by Weintraub and Rao (2013) and SMEs performance have adapted by Murphy and Callaway (2004).

This reserach was a quantitative, descriptive and explanatory study. Cross-sectional mode of data was used for this study. In this study, questionnaire survey method was comprehended. Different statisticians have suggested that sample size for pilot study

ranges from twenty-five to seventy five (Bartlett *et al.*, 2001; Hayes and Bennett, 1999). Therefore, the total of 60 questionnaires were randomly distributed personally in SMEs of Punjab, Pakistan. Province Punjab of Pakistan is the largest number of SMEs in Pakistan and therefore it is appropriate for this study (Saeed *et al.*, 2015; SMEDA, 2005). Individuals of SMEs were the sample, i.e., senior managerial staff, strategists and the owners/CEOs of SMEs. Only those individuals who directly influence SMEs culture were involved in the study. Time duration for collecting the data was one and half month. Although, one week was given to every respondent for responding out the questionnaire. Questionnaires which were distributed, based on 36 questions regarding effect of innovative cultural values on SMEs performance. A five point Likert Scale was used ranging from strongly disagree to strongly agree. Analysis were run through Partial Linear Square modeling (PLS-2.0) and factor analysis on SPSS 20V.

RESULTS

Assessment of Measurement model: First of all, common method bias was assessed using Hermann’s single factor (Hamann *et al.*, 2013). The result for the factor analysis of all the items of the variables indicate that it was >1 factor measuring for the variance. The problem of the common method bias is not likely to be an issue as argued by Podsakoff that common method bias exists only when single factor is explaining >50% of the variance (Podsakoff *et al.*, 2003).

Moreover, reliability and the validity are the two most important criterion used in PLS-SEM analysis to evaluate the outer model (Hair *et al.*, 2009; Hair *et al.*, 2006). The reliability were assessed through Composite Reliability (CR) while validity was measured through convergent validity Average Variance Extracted (AVE) and discriminant validity using Fornell-Lacker criterion and indicator’s outer loadings. As Fig. 2 and Table 1 indicate

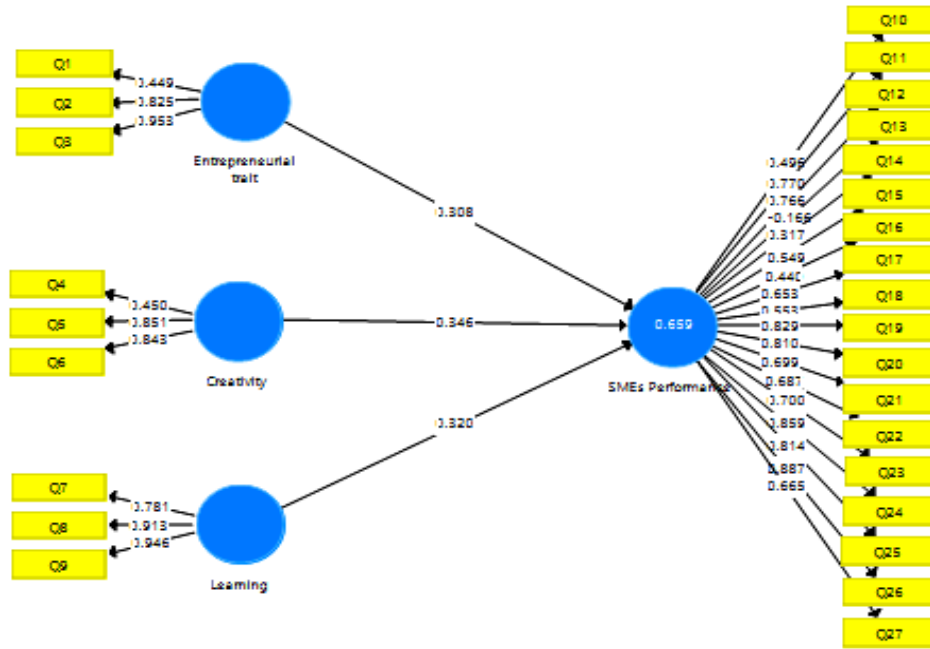


Fig. 2: Measurement model

Table 1: Loadings, Cronbach alpha, composite reliability and AVE

Constructs	Items	Loadings	Cronbach alpha	Composite reliability	AVE
Entrepreneurial	Q1	0.86	0.55	0.77	0.55
	Q2	0.64			
	Q3	0.77			
Creativity	Q4	0.71	0.79	0.8	0.6
	Q5	0.69			
	Q6	0.65			
Creativity	Q7	0.71	0.79	0.8	0.6
	Q8	0.75			
	Q9	0.83			
Learning	Q10	0.71	0.86	0.91	0.78
	Q11	0.77			
	Q12	0.75			
SMEs Performance	Q13	0.68	0.91	0.93	0.46
	Q14	0.69			
	Q15	0.61			
	Q16	0.91			
	Q17	0.83			
	Q18	0.86			
	Q19	0.81			
	Q20	0.83			
	Q21	0.72			
	Q22	0.69			
	Q23	0.84			
	Q24	0.81			
	Q25	0.85			
	Q26	0.77			
	Q27	0.79			

Table 2: Discriminant validity

Discriminant validity				
Variables	Entrepreneurial	Creativity	Learning	SMEs performance
Entrepreneurial	0.74			
Creativity	0.55	0.77		
Learning	0.57	0.5	0.88	
SMEs performance	0.71	0.61	0.67	0.68

consistency (Hair *et al.*, 2006). Additionally, all CR values are above the recommended threshold value of 0.70 (Table 1) (Cornwell, 2001).

Furthermore, convergent validity is also shown. As in Table 1, all AVE values shown are above the threshold value of 0.50 which indicates the convergent validity of the measurement in this study (Hair *et al.*, 2009). Thus, in the current study the two popular methods were used for assessing the constructs' discriminant validity. This criteria is stated by Fornell and Larcker (1981) in their criterion and examination of cross loadings (Hair *et al.*, 2009). In Table 2, it is shown that each item's square root of AVE is higher than its correlation with all of the other items. In addition, the result revealed that no indicator loaded higher on any opposing construct. In conclusion, both approaches evidently indicate that the study constructs show discriminant validity (Hair *et al.*, 2009; Hair *et al.*, 2009).

that CR (Composite Reliability) value in this study is between 0.77 and 0.93 which shows adequate internal

Assessment of structural model: According to many researchers and Hair *et al.* (2009), structural model

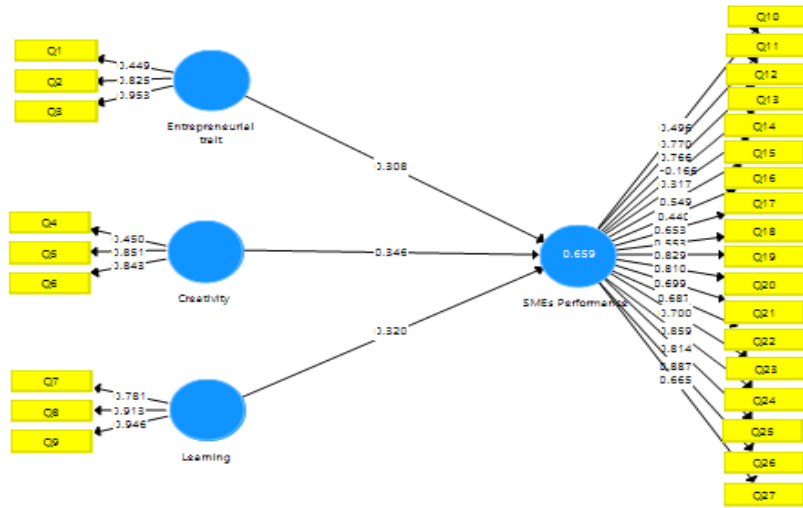


Fig. 3: Structural model

Table 3: Collinearity using VIF

Constructs	VIF
Entrepreneurial	1.72
Creativity	1.55
Learning	1.61

measurement includes the collinearity examination of the variables, assessing the significance and relevance of the structural model relationships, R2, effect size f2 and predictive relevance Q2. Hence, before assessing the structural model, this study assessed the collinearity among the exogenous variables. In Table 3, it is shown that there is no multicollinearity problem among the exogenous variables exist, since the VIF values are below 5 (Hair *et al.*, 2013).

On the basis of satisfactory results from the collinearity assessment, the structural model was assessed. Firstly, the structural model relationships were measured using PLS-SEM Algorithm for the coefficient and for the significance of the relationship. The Smart PLS 2.0 was used and original number of cases were used as the number of cases, 60 sample was used for bootstrapping procedure (Cornwell, 2001; Directory *et al.*, 2012). Figure 3 and Table 4 shown the results of relationship between the exogenous variables and endogenous variable of the PLS-SEM analysis. Precisely, the result of the structural model shows that there is a significant relationship between innovative cultural values and SMEs performance. Thus, H₁ was that innovative cultural values has a significant positive relationship with SMEs performance. Additionally, the result indicates significant positive relationship between innovative cultural values and SMEs performance. Finally,

Table 4: Results of hypotheses testing

Hypothesis	Path				
	coefficient	SE	t-statistics	p-value	Decision
ICV>PF	0.35	0.07	2.1	0.1	Supported
ET>PF	0.381	0.05	2.45	0.1	Supported
CT>PF	0.346	0.08	3.1	0.11	Supported
LG>PF	0.32	0.07	4.86	0	Supported

*, **, ***p<0.1; 0.05; 0.01

the finding shows that innovative cultural values have significant positive relationship with SMEs performance. Therefore, H_{1a}, H_{1b} and H_{1c} are supported.

Then, R2 is another central criterion for the structural model's assessment, this study has an acceptable R2 value of 0.25 (Butler *et al.*, 2012). The effect size (f2) result indicates innovative cultural values entrepreneurial trait has value of 0.01, innovative cultural values creativity trait has value of 0.12, innovative cultural values learning trait has value of 0.02 with SMEs performance which all considered as small, moderate and small effect. However, Chin *et al.* (2003) stressed that even the minutest value of f2 should be considered as it can stimulate the endogenous variable in its certain ways.

CONCLUSION

The objective of this study is to identify the relationship between the innovative cultural values and SMEs performance. This study was focused on the developing country Pakistan. Four hypotheses were developed. The first Hypothesis (H₁) which states that innovative cultural values has a positive relationship with SMEs performance. Through the result of this hypothesis it is obvious that if innovative cultural values exist and

enforce in an SME then its performance will increase. Therefore, those SMEs in Pakistan and under developing nations who emphasize on increasing the performance of SMEs for the country's success and development must utilize the innovative cultural values as a means.

Hypotheses from H_{1a} till H_{1c} were hypothesized from H₁ based on the forms of innovative cultural values. The second Hypothesis (H_{1a}) was hypothesized the positive relationship between innovative cultural values' entrepreneurial trait and SMEs performance. Such activities like the exploring opportunities and creating new things, tolerance for ambiguity and the opportunities, avoiding analysis and creating more opportunities that SMEs have, are positively related to their ability to get performance which in turn affects their revenue and growth. This finding further provides evidence that SMEs having more tolerance for ambiguity and propose more opportunities and creates more new things which in turn enhance their profitability. The finding links well with the argument that SMEs who lack entrepreneurial traits as an innovative cultural value causes the poor performance and ultimately moves in a backward way (Abu-jarad *et al.*, 2010; Madu, 2011; Rose, 2008). Consistent with many other authors as well this result demonstrates that SMEs must adopt such cultural traits as a value who focuses more on innovation through ambiguous analysis and more opportunities which help SMEs to generate more profit that produce high retained earnings (Ogbonna and Harris, 2000).

Proceeding, H_{1b} was also supported. This is another stirring result, the results have provided the empirical evidence that there is a positive effect of innovative cultural values' creativity and SMEs performance. The result is alike to the findings of the prior findings that the innovative cultural values' creativity drivers are thoughts for the positivity, autonomous and playful have a valuable influence on the SMEs performance. This finding also supports the understanding of several studies that SMEs performance enhancing activities are based upon the innovative cultural values' creativity (Rao and Weintraub, 2013).

Finally, the study found support for H_{1c}, that there is a positive relationship between innovative cultural values' learning and SMEs performance in Pakistan. The result of the factor analysis, VIF values and smart PLS analysis provide the empirical evidences that there is a positive relationship between innovative cultural values (ICV) learning and SMEs performance. This finding coincided with the view that SMEs activities for enhancing the performance is highly affected by the ICV learning in SMEs.

This study recommends that SMEs in Pakistan must utilize innovative cultural values like entrepreneurial activity, creativity and learning for enhancing their performance (Dharmadasa, 2009b; Keskin, 2006; Oke *et al.*, 2007; Soto-Acosta *et al.*, 2015). In addition, this study also suggests that SMEs owner-manager should adopt such culture which must be enriched with such innovative values focusing more on the learning, creativity and entrepreneurial trait. In other words, SMEs in Pakistan can pursue innovative cultural values in order to reduce the performance constraints they used to face. Furthermore, Pakistani SMEs should encourage learning and creativity support for individuals to utilize for their growth (Mahmood *et al.*, 2015). Pakistani SMEs should consider the ideas and opinions that are new and take appropriate response to the changes in the internal environment of SMEs. In short, SMEs must recognize that learning is necessary for them to adapt to their environment for better opportunities. Finally, Pakistani SMEs should pursue innovative cultural values for the better performance and do away with the status quo.

Notwithstanding, several important contributions discussed in this study concerning SMEs performance, it has some limitations that need to be identified and address. However, Harman single factor analysis established that the study is free from this problem, as potential problem in behavioral research future research can collect data from multiple participants (owners, managers and financiers) separately per enterprise which can minimize the measurement errors. Secondly, this study focused on SMEs operating in eastern Pakistan, thus, findings of this study should be carefully generalized to SMEs operating in another part of the country. Additionally, this research considers all type SMEs service and manufacturing, there is a need to examine the performance of SMEs based on the subsectors. Future research should consider examining SMEs icv in other parts of the country and subsector activities which may provide more in-depth result. Thirdly, the present study relied on a single method of data collection. It will be of interest if future studies combine both quantitative and qualitative methods to investigate SMEs performance with respect to innovative culture in the under developing and developing countries. Fourthly, the study used cross-sectional design which may restrict to prove causal relationships between the variables (Sekaran and Bougie, 2010). To get more understanding on the subject matter and validate the findings from cross-sectional studies a longitudinal study is suggested for future research.

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