

IMPACT OF THE ENTREPRENEURIAL ORIENTATION ON THE FIRM PERFORMANCE OF SMES IN SRI LANKA: MODERATING EFFECT OF TRANSFORMATIONAL LEADERSHIP BEHAVIOUR

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Abstract

This paper aims to examine the impact of the Entrepreneurial Orientation (EO) on the business performance of Small and Medium Enterprises (SMEs) in Sri Lanka with moderating effect of Transformational Leadership (TL). The previous strategic and entrepreneurial literature typically modeled the EO and TL as separate antecedents of firm performance, but this study investigates the moderating effect. This study used insights from the Resource-Based View (RBV) Theory and Full Range of Leadership Theories (FRLT). The EO is discussed with five dimensions scales, and TL is discussed with four dimensions scales. The conceptual framework was designed by using the literature and theories of the EO and TL. The research questionnaire was developed on the predefined EO-Five dimensions measurement and Multifactor Leadership Questionnaire (MLQ). Simple random sampling was used as the sampling technique of this research, and data was collected from SME owners/ managers. Finally, 150 valid questionnaires were collected from 400 SMEs. The finding shows that EO has a significant positive moderate relationship with the firm performance overall. The Proactiveness and Competitive Aggressiveness showed a moderate positive significant relationship with firm performance. Other constructs like Innovativeness, Risk-taking Autonomy showed a moderate and weak positive relationship with firm performance. The results indicate that the TL style of the SMEs in Sri Lanka is significant and positively moderates the EO and firm performance relationship. The main limitation of this research was gathering reliable data because small and medium business owners are often unwilling to provide and share confidential information. This paper contributes to the small business management literature by providing a holistic analysis of the EO and TL on SME's business performance in developing countries like Sri Lanka.

Keywords: Entrepreneurial orientation (EO), Firm performance, RBV Theory, Small and medium enterprises (SMEs), Transformational leadership (TL)