MODERATING EFFECT OF EXTERNAL ENVIRONMENT ON PERFORMANCE OF SMES IN PAKISTAN

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DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
July 2014
MODERATING EFFECT OF EXTERNAL ENVIRONMENT ON PERFORMANCE OF SMES IN PAKISTAN

By

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy
July 2014
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This study aimed to investigate the moderating effect of external environment (EE) on the relationships between Total Quality Management (TQM), Entrepreneurial Orientation (EO), Market orientation (MO) and performance (P). The study was greatly motivated by the inconsistent findings and the gaps indicated in the contemporary literature regarding those relationships. First there were contradictory findings between TQM and Performance, EO and Performance and MO and Performance relationships. Second, the three strategies; TQM, EO and MO were not investigated together within the context of Small and Medium Enterprises (SMEs), and third, in the relevant literature, many theories have emphasized the necessity to establish the fit between external environment and intended strategies as the key success factor. Therefore, this study integrated EE as an important moderating variable for the purpose of strategy implementation. Data were collected from SMEs operating in the Punjab Province, Pakistan by using questionnaire survey, and a random sampling was used for sample selection. 500 questionnaires were distributed to SME owner/managers but only 384 of them were returned, giving a response rate of 77 percent. However, only 367 useable questionnaires were used for further analysis. The high response rate was achieved due to the survey instrument being personally distributed and emailed by the researcher to the SMEs. The findings revealed that TQM and MO were significant predictors of performance, while EO was found insignificant to the performance. Meanwhile mixed results were found upon investigating the moderating effect of EE on the relationships between TQM, EO, MO and performance. The findings of this study provided significant insights for both managers and researchers to further understand the effects of implemented strategies on performance. Finally, limitations of study and necessary recommendations for future research were discussed.

**Keywords:** total quality management, entrepreneurial orientation, market orientation, external environment, performance.
ABSTRAK


Kata kunci: pengurusan kualiti menyeluruh, orientasi keusahawanan, orientasi pasaran, persekitaran luaran, prestasi.
ACKNOWLEDGEMENTS

All praise and glory to Almighty Allah (Subhanahu Wa Taalaa) who gave me strength and patience to carry out this work. Peace and blessings of Allah SWT be upon last Prophet Muhammad (Peace Be upon Him)

In completing this research, I am greatly indebted to various wonderful people for their assistance and contributions in one way or another. I would like to deeply acknowledge the intellectual sharing of many great individuals.

First and foremost, my sincere thanks and gratitude goes to my respected supervisor, Prof. Dr. Rosli Mahmood, for providing invaluable assistance, guidance, support, encouragement and insightful comments at different stages of this research. Thank you, again for all that you did throughout the entire process and made me able to complete this study.

I express my deep appreciation to my respected father, mother, brothers and sisters, thank you so much for your kind support and prayers. Special thanks also go to my nephews Zayan, Rayan and Abdullah and nieces Hania, Urva and Mahnoor for their encouragement, constant help and everlasting love.

I am especially indebted to very nice colleagues and cooperative friends surrounding me. I would like to thank the kind and brilliant people, Dr. Kabiru Jinjiri, Mukhtar Shehu Aliyu, Mohammed Abubakar, Rahimi Abidin and Saida Farhana Sarkam for their invaluable help and support throughout PhD journey.

Once again, I am thankful to Almighty Allah for His mercy and countless blessings on me from the beginning till the end in the PhD tenure.
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<td>EO</td>
<td>Entrepreneurial Orientation</td>
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<td>FPCCI</td>
<td>Federation of Pakistan Chamber of Commerce and Industries</td>
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<td>KMO</td>
<td>Kaiser-Meyer-Olkin</td>
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<td>MBNQA</td>
<td>Malcolm Baldrige National Quality Award</td>
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<td>MO</td>
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<td>P</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<td>TQM</td>
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<td>UNIDO</td>
<td>United Nations International Development Organization</td>
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<td>Variance Inflation Factor</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The globalization of economic activities in the 21st century had led to free flow of tangible and intangible resources among the countries in Asian continents and world at large (Lan & Wu, 2010). The vital role of SMEs (small and medium enterprises) cannot be denied in this competitive and challenging business world. Several researchers such as, Acs and Audretsch (1990) and Brock and Evans (1986) examined that SMEs have the capability to create employment opportunities and are initiator in innovation domain. In keeping with the above discussion, research conducted by Jutla, Bodorik and Dhaliwal (2002) observed the vital importance of SMEs and considered them as the impetus of economic growth in all countries.

History revealed that SMEs existed since time immemorial, even in the Holy Bible; there is an explanation about small scale trade, existed between individuals (Kongolo, 2010). It has been witnessed that most of the existing large organizations have their foundation and origin in small and medium enterprises (SMEs). Dana (1988) pointed out that SMEs lead to larger organizations and later into multinational companies. SMEs worldwide are considered as the engine of economic growth, as they play an important role in poverty alleviation through job creation and a breeding ground for entrepreneurs. Most of the developing countries have realized the extreme benefits from SMEs and significance of the SMEs towards productivity of the country (Jasra, Khan, Hunjra & Rehman, 2011). SMEs contribute to industrialization by developing and strengthening
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