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Entrepreneurial Orientation and Strategic Management Practices in Commercial Banks

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Abstract---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. Corporate entrepreneurial orientation 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. Overall, entrepreneurial orientation has become a flourishing research field since it is widely advocated as a means of organizational innovation and has many advantages both at individual and organizational level. Entrepreneurial orientation and strategic management practices are combined in a empirical research investigating the influence of strategic management practices on entrepreneurial orientation of private sector commercial banks.

Keywords---entrepreneurial orientation, environmental analysis, formulation strategies, planning flexibility, employee commitment.

Introduction

Entrepreneurship research has been expanding its boundaries by exploring explanations and predictions of entrepreneurship phenomena in terms of events like venture creation and entrepreneurial organisations. In this regard, many authors have highlighted that established corporates must adopt entrepreneurial strategies as a tool to revitalize the existing organizations and making them more innovative. One such innovative practice followed by most of the companies is corporate entrepreneurial orientation (Antoncic and Hisrich 2003). The development of entrepreneurial activities within organizations has been investigated in different contexts in various countries. These studies identify different aspects like individual issues, corporate related factors and environmental factors at different levels of analysis that can have influence on entrepreneurial orientation of companies. The present study focuses on strategic

management practices and entrepreneurial orientation of private sector commercial banks. The main objective of this study is to examine the relationship between entrepreneurial orientation and strategic management practices in Private Sector Commercial Banks. The specific objectives are outlined as follows:

- To determine the relationship between environmental analysis and entrepreneurial orientation of private sector commercial banks.
- To determine the relationship between planning flexibility and entrepreneurial orientation of private sector commercial banks.
- To determine the relationship between formulation of strategies and entrepreneurial orientation of private sector commercial banks.
- To determine the relationship between employee commitment and entrepreneurial orientation of private sector commercial banks.

Review of literature

Schumpeter's writings focused primarily on the activities of the individual entrepreneur but in many occasions, entrepreneurship is arguably a corporate level phenomenon (Covin and Slevin, 1991a, 1991b; Miller, 1983; Stevenson and Jarillo, 1990). A recent study of the role of entrepreneurship in formulating Intel Corporation's strategy suggested that entrepreneurial activities were the outcome of the interaction of individuals and groups within the companies (Burgelman, 1991). The end result of these and similar observations has been the conceptualization of entrepreneurship as a corporate level phenomenon (Burgelman, 1983; Covin and Slevin, 1988, 1991a; Miller, 1983; Zahra, 1991, 1993)."

Entrepreneurial orientation

Entrepreneurial orientation is a key concept that refers to the processes, practices and decision-making styles of organizations that act entrepreneurially. Entrepreneurial orientation focuses on ways in which companies could create new opportunities that generate new revenue streams and value for shareholders (Narayanan et al 2009). The concept of entrepreneurial orientation has evolved over the last decades and several definitions have been quoted. Guth and Ginsberg 1990 explained that entrepreneurial orientation of corporate summarizes two phenomena, new creation within organizations and transformation of ongoing organizations through strategic renewal, Sharma and Chrisman 1999 stated that 'the process whereby an individual or group of individuals, in association with existing organizations, create a new organization or instigate innovation within that organization.

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 compatibility of its management practices with its entrepreneurial orientation.

Strategic management practices

Among the management practices that facilitate entrepreneurial behavior of companies are their strategic management practices. Although there are different dimensions of strategic management practices, only four dimensions namely, Environmental analysis, locus of planning, formulation of Strategies and Evaluation are used in this study that are discussed below.

Environmental Analysis

Scanning refers to the managerial activity of learning about events and trends in the organization's environment (Hambrick, 1981). The philosophical roots of the scanning concept date back to the ancient Greeks, who believed that success in combat was dependent upon adequate intelligence for the purpose of making good tactical and strategic decisions (Box, 1991).

In Today's context, scanning is very important to managers of companies because it provides with information about trends and active events in their relevant environments, which help them to identify opportunities (Bluedorn et al, 1994). A high level of environmental scanning is congruent with the entrepreneurial process (Miller 1983).

Scanning facilitates the risk taking and proactiveness dimensions of entrepreneurial behavior. As a means of partial uncertainty absorption, scanning may lower the perception of risk associated with potential entrepreneurial venture, increasing the possibility that the company will engage in innovative venture. Entrepreneurial managers may also realize that scanning is their bridge to remain competitive.

Planning Flexibility

Planning Flexibility refers to the capacity of a firm's strategic plan to change environmental opportunities that may emerge. The notion of planning flexibility was first suggested by Kulkalis 1989 to investigate how environmental and firm characteristics affect the design of strategic planning systems. Kulkallis theorized that firms in complex environmental settings maximize performance by adopting suitable planning systems. A concentrated effort in the direction of planning flexibility facilitates a high level of corporate entrepreneurship intensity for various reasons. First, flexible planning system, coupled with intensive environmental scanning allows a firm's strategic plan remain and permits entrepreneurial activities to be planned rather than to take place in ad hoc manner outside the parameters of a strategic plan.

Formulation of strategies

Strategy Formulation is an analytical process of selection of the best suitable course of action to meet the organizational objectives and vision. It is one of the steps of the strategic management process. The strategic plan allows an

organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

Employee commitment

Employee commitment refers to the depth of employee involvement in a firm's strategic planning activities. Organization can be characterized as having either a shallow or a deep locus of planning. A deep locus of planning denotes a high level of employee involvement in the planning process, including employee from virtually all hierarchical level within the firm. Conversely, a shallow locus of planning denotes a fairly exclusive planning process, typically involving only the top manager of a firm. There are several reasons to believe that a deep locus of planning facilitates a high level of corporate entrepreneurship intensity. First, a high level of employee involvement planning brings the people "closest to the customers" into the planning process. The second reason that a deep locus of planning facilitates the entrepreneurial process is that it maximizes the diversity of viewpoint that a firm consider in formulating its strategic plan.

Control attributes

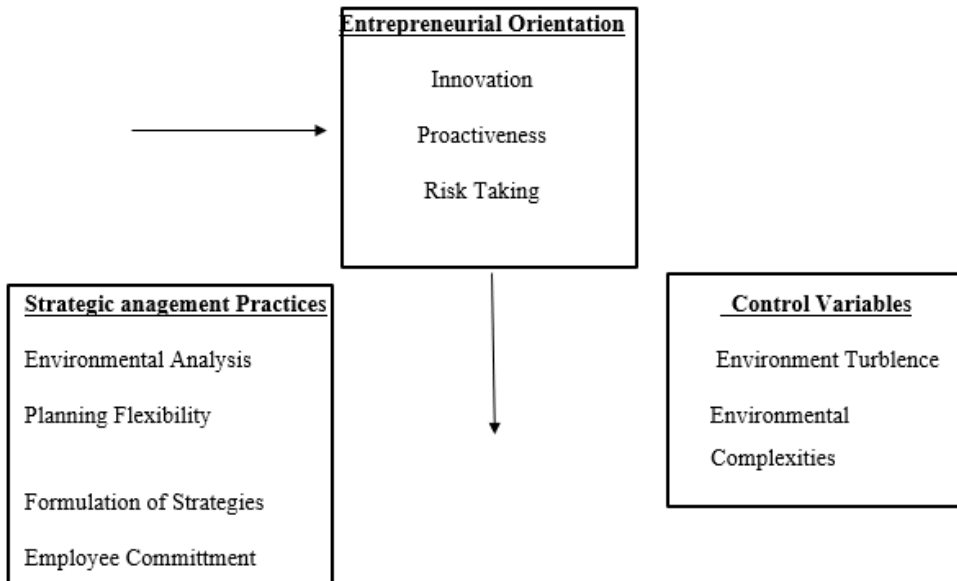
The purpose of a control system is to make sure that companies meet predetermined goals and objectives (Lorange, Morton and Ghoshal 1986). In the context of this study, this means that the control system of entrepreneurial orientation must stimulate innovation, proactiveness and risk taking. The control attributes used in this study environment turbulence and environment complexities. Based on the literature review, the following hypotheses have been formulated to determine the relationship between strategic management practices and entrepreneurial orientation of commercial banks.

- Hypothesis 1: There exists a positive relationship between environmental analysis and entrepreneurial orientation of public sector commercial banks.
- Hypothesis 2: There exists a positive relationship between planning flexibility and entrepreneurial orientation of public sector commercial banks.
- Hypothesis 3: There exists a positive relationship between formulation of strategies and entrepreneurial orientation of public sector commercial banks.
- Hypothesis 4: There exists a positive relationship between employee commitment and entrepreneurial orientation of public sector commercial banks.

Limitations of the study

Analysis is confined to the study of four specific strategic management practices only. Obviously, strategic management is a much broader multidimensional construct, and other dimensions of the strategic management process may influence a bank's entrepreneurial behavior. In addition, the study was limited to only private sector commercial banks in Chennai.

Conceptual Model indicating the influence of strategic management practices and control variables on entrepreneurial orientation



Methodology

This is an empirical study based on the survey method. The secondary data was obtained from books, journals, and statistical reports maintained by the commercial banks and websites. The primary data on the varied aspects of strategic management practices and entrepreneurial orientation were obtained through a structured and a comprehensive questionnaire. The questionnaire method was adopted to collect the data and the questionnaire was personally distributed to 175 managers in select private sector commercial banks in Chennai. The questionnaire was collected back after seven days giving them sufficient time so as to enable them to devote more time in giving the accurate information. The wordings in the questionnaire were made simple and easy in order to give them clarity in questions. The questionnaire contained questions placed on a five point likert scale eliciting information about the strategic management practices and entrepreneurial orientation. The population for this study consists of, middle management, top management and executives of select commercial banks in the city of Chennai.

Validity of the questionnaire

In order to ensure appropriateness of the research instruments used in the present study, the instruments were tested for content validity and construct validity. The reliability of the questionnaire used in this research was assessed through the use of Cronbach's Alpha. Cronbach's Alpha measures the internal consistency of the instrument, which refers to the degree to which the measuring instrument items are homogenous and reflect identical underlying constructs

(Cooper and Schindler, 2006). Bryman and Bell (2007) state that Cronbach's Alpha is a commonly used test of internal reliability, which essentially calculates the average of all possible split-half reliability coefficients. The research instruments used were tested for content validity and construct validity in order to ensure correctness of its use in the present study. The reliability index ascertained by the Cronbach alpha method for the questionnaire as is as follows:

Table 1
Cronbach's Alpha

Strategic Management Practices.	Cronbach's Alpha
Environmental Analysis	0.82
Planning Flexibility	0.83
Formulation of Strategies	0.80
Employee Committment	0.76
Entrepreneurial Orientation	0.81

Measures

Entrepreneurial orientation

A five item scale was used to measure the level of entrepreneurial orientation in commercial banks ($\alpha = 0.84$). The scale was developed and validated by Covin & Slevin (1986) based on previous scale developed work by khandwalla (1977) and Miller and Friesen (1982). The scale contains items that measure a firm's tendency toward innovation, risk-taking and proactiveness, which are the sub dimensions of entrepreneurial orientation (Miller, 1983).

Environmental analysis

A 12 item scale was used in this study to measure scanning incentive ($\alpha = 0.82$). In this study, analysis was conceptualized as the extent of effort dedicated towards the process. A separate six items scale measured each of those sub dimensions of analysis. The first set of six items was modified version of Miller and Friesen's (1982) effort dedicated towards scanning scale. The second set of items measured environmental analysis comprehensiveness. These items were used to assess how the private sector commercial banks analyze the elements of the task and societal environments.

Planning flexibility

A nine item scale was used to measure planning flexibility ($\alpha=0.80$). This scale was used to assess the commercial banks can change their strategic plans to adjust for each of nine theoretically relevant environmental contingencies. The mean score on the scale, average across the nine items was used to assess the level of planning flexibility of private sector commercial banks.

Formulation of strategies

A four item scale was used to measure locus of planning ($\alpha = 0.81$). This scale was used to measure the extent to which employee from different hierarchical levels is involved in the formulation of strategies in private sector commercial banks. The following hierarchical levels in a firm were included: Middle Management, Top Management and Executive level Management.

Control variables

Two control variables environmental turbulence and environmental complexities of the external environment were also used in the study. A nine item scale to measure environmental turbulence ($\alpha = 0.76$) based on similar turbulence scale made use of by Naman and slevin (1993), Miller and Friesen (1982), and Khandwalla (1977), was used. Similarly, A five-item scale was used to measure environment complexity ($\alpha = 0.73$).

Data analysis and Hypothesis test results

Data analysis

The mean, standard deviation, Pearson product moment correlation for the variables included in the study are shown in Table 2.

Table 2
Pearson Product - Moment Correlation Matrix including entrepreneurial orientation, dimensions of strategic management and control variables

Variables	Mean s	S. D	1	2	3	4	5	6	7	8	9
Entrepreneurial Orientation	4.40	1.05	(0.87)								
Environmental Analysis	4.92	0.84	0.15*	(0.82)							
Planning Flexibility	4.70	0.83	0.34*	0.11	(0.08)						
Formulation of Strategies	4.19	0.95	0.18*	0.48*	0.25*	0.30*	(0.89)				
Employee Commitment	5.34	1.04	0.04	0.32*	0.10	0.24*	0.18	0.33*	(0.77)		
Environmental Turbulence	3.86	0.80	0.09	0.12	-0.12	0.11	0.10	-0.12	-0.07	0.67	
Environmental Complexity	3.70	1.10	0.11	0.11	-0.06	0.13	0.10	-0.07	0.01	0.25	0.73

$p, 0.10$; * $p, 0.05$; ** $p, 0.01$

Correlation matrix shows statistically significant correlation in the direction expected between entrepreneurial orientation and three of the four dimension of strategic management practices included in the study. Entrepreneurial orientation correlated positively with Environmental analysis ($p<0.05$), planning flexibility ($p<0.01$), formulation of strategies ($p<0.05$), but there was no significant correlation between entrepreneurial orientation and financial controls. To test hypotheses, hierarchical regression analysis was used in the study. For each hypothesis, this approach allowed to regress entrepreneurial orientation against a set of control variables and then add the respective dimension of strategic management practices into the equation and test whether the incremental change in R^2 resulting from the addition of the strategic management variable was statistically significant (Pedhazur, 1982).

The control variables included were environmental turbulence and environmental complexity. Previous studies have found that environmental turbulence (Naman and Slevin 1993) and environmental complexity (Zara, 1991) are positively related to entrepreneurial orientation. For each hypothesis, separate hierarchical regression was done which is shown in Table 3. Each hierarchical regression involved two steps. In step one, entrepreneurial orientation intensity has been regressed on the control variables and in step two, entrepreneurial orientation has been regressed on the control variables and the dimensions of strategic management practices associated with the hypothesis.

Table 3
Results of the hypothesis tests using hierarchical regression

$p<0.10$; * $p<0.05$; ** $p<0.01$; *** $p<0.001$

Variables Regressed against Entrepreneurial orientation		Hypothesis 1 Environmental analysis	Hypothesis 2 Planning Flexibility	Hypothesis 3 Formulation of Strategies	Hypothesis 4 Employee Commitment
Control Variables					
Environmental Turbulence	0.05	0.01	0.11	0	0.07
Environmental Complexity	0.16+	0.15+	0.12	0.13	0.19*
Strategic Management Dimensions					
Environmental Analysis		0.21*			
Planning Flexibility			0.32***		
Formulation of Strategies				0.26**	
Employee Commitment					0.16
F-Ratio	2.03 +	2.55*	3.98***	2.52*	2.54*
R ²	0.08	0.12	0.17	0.12	0.12
F- Ratio testing the Δ in R^2 between the full and partial model		4.95*	12.78***	5.89*	5.00*

The F-ratio which tests the change in R^2 between the full and partial models assesses the significance of each of the dimensions of strategic management beyond the contribution of the control variables. Regression coefficients shown are standardized coefficients.

Hypothesis 1 was supported ($p < 0.05$). There is a positive relationship between environmental analysis and entrepreneurial orientation of private sector commercial banks. This shows that environmental analysis is very important factor to be considered by the managers to understand the trends and plan their activities to suit the customer requirements. There is also a positive relationship between planning flexibility and entrepreneurial orientation of private sector commercial banks and hence hypothesis 2 also was accepted. This depicts that planning flexibility is a prerequisite for managers to develop methods and procedures to increase the intensity of entrepreneurial orientation.

Hypothesis 3 was supported, demonstrating a positive relationship between formulation of strategies and entrepreneurial orientation intensity of private sector commercial banks ($P < 0.01$). Literature reports that deep locus of planning accredited for facilitating opportunity recognition, identification and deployment of firm's resources to take advantage of opportunities as they emerge in the environment (Hornsby et al 2012).

Hypothesis 4 postulated a negative relationship between an emphasis on employee commitment and entrepreneurial orientation of private sector commercial banks.

Discussion and Conclusion

The results of the study suggest that the entrepreneurial orientation of managers in private sector commercial banks is influenced by the nature of its strategic management practices. The results show a strong relationship between planning flexibility and entrepreneurial orientation of managers in commercial banks. This shows that planning flexibility enables the ease with which the managers can change their strategic plan in response to environmental changes. The positive relationship between formulation of strategies and entrepreneurial orientation indicated that a high level of employee involvement in planning that facilitates entrepreneurial behavior in private sector commercial banks. This result is supportive of the general notion that employee participation at all levels is an essential key to the entrepreneurial process (e.g., Burgelman, 1984). The result is also consistent with Sathe's (1998) observation that entrepreneurship is to flourish in an organization, lower-level manager needs to be free to identify and pursue promising opportunities. In conclusion, the compelling theme that emerges from this study is that a bank's strategic management practices influence its entrepreneurial orientation.

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