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EFFECT OF ENTREPRENEURIAL ORIENTATION ON ORGANIZATIONAL PERFORMANCE THROUGH KNOWLEDGE MANAGEMENT

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ABSTRACT

Given the competitive market environment in recent years, entrepreneurial orientation (EO) and knowledge management (KM) have received more attention as components of improving organizational performance. This research examines the impact of EO and KM on the organizational performance of Razi Insurance Company. This is an applied research study in terms of purpose, quantitative in nature, and descriptive-correlational in terms of the data collection method. The statistical population consists of all managers and employees in Razi Insurance Company, of which 97 answered the questionnaire. The required data were collected using a questionnaire extracted from the studies of Lumpkin and Dess (1996), Gold et al. (2001), Murphy et al. (1996), and Parnell et al. (2006). Structural equation modeling (SEM) was employed in Smart PLS software to fulfill the research objectives and test the research model. The validity and reliability of the research tool were obtained by estimating the measurement model and applying the necessary corrections. The research results indicated a significant direct effect of EO and KM on organizational performance. It was also found that EO has a significant direct effect on KM, while EO indirectly affects organizational performance through KM. In other words, it was demonstrated that KM plays a mediating role between EO and organizational performance.

Keywords: Organizational Performance, Entrepreneurial Orientation, Knowledge Management, Structural Equation Modeling

INTRODUCTION

Organizational performance includes all competitiveness and organizational excellence goals, which are associated with flexibility, cost, speed, reliability, or quality. Indeed, organizational performance is an umbrella term that involves all concepts linked to the success and activities of the entire organization (Ghorbanzadeh et al., 2012). Performance improvement has always been considered one of the main challenges facing private and public organizations. In this context, a strategic approach adopted by organizations to improve performance and achieve significant success is to mind the development of entrepreneurial orientations within the organization. According to a relevant literature review, a general consensus is that a successful entrepreneurial orientation (EO) is akin to improving organizational performance. EO is recognized as a suitable path toward high levels of organizational performance, and organizational entrepreneurship is an effective, valuable practice with tangible and objective benefits within the organization and management levels (Rauch et al., 2009).

Many studies have revealed that one of the most important entrepreneurial capabilities for improving firm performance is EO (for example, Wiklund, 1999; Wiklund and Shepherd, 2003;



Zahra, 1991; Hosseini Moghaddam and Hejazi, 2014). Lumpkin and Dess (1996) defined EO as a decision-making approach, process, and method of strengthening entrepreneurial activities. Also, Wiklund and Shepherd (2003) proposed EO as a type of organizational strategic orientation. To the three dimensions of EO (innovativeness, risk-taking, and proactiveness) provided by Miller (1983), Lumpkin and Dess (1996) added two other dimensions, namely autonomy and competitive aggressiveness. Most studies tend to apply the three dimensions of Miller (1983) as they include them as a sub-branch of the EO construct as an independent variable. However, Lumpkin and Dess (1996) pointed out that all five EO dimensions have an independent and beneficial effect on firm performance (Hughes and Morgan, 2007).

Although exploiting entrepreneurial capabilities such as EO helps improve firm performance and gain competitive advantage, this is only one side of the coin. On the other hand, today's companies can gain a competitive advantage not only by relying on tangible assets and natural resources but also by effectively using knowledge (Lee & Sukoco, 2007). The excessive pressure of global competitiveness has forced companies to improve their competencies not to be dropped out, requiring the search and acquisition of vital information and knowledge from the market and within the organization (Zahra & George, 2002). Therefore, knowledge management (KM) is required to gain a competitive advantage and improve firm performance. Wiklund and Shepherd (2003) stated that future opportunities could be discovered by combining KM and EO. Through the effective combination of KM and EO, an organization or company is more likely to succeed in discovering opportunities and competencies and, consequently, improving its performance (Lee & Sukoco, 2007).

Hence, not only does the combination of KM and EO affect organizational performance, but an organization's EO is also expected to affect KM (Lee & Sukoco, 2007). As previously stated, companies need to acquire knowledge to gain a competitive advantage; however, they must be able to convert acquired knowledge into in-house knowledge before it can be used in the company. Lee & Sukoco (2007) believed that EO increases knowledge convertibility to improve organizational performance. An organization with EO seeks to achieve innovativeness and acquire the necessary competencies to ensure better performance, affecting the knowledge conversion and creation process required throughout the company (Gold et al., 2001).

Although various studies have been conducted to evaluate the performance of insurance companies mainly based on financial indicators (for example, payout ratio and insurance penetration), less research has been performed to evaluate the non-financial performance of the industry. After Omid and Iran Moein insurance companies, Razi Insurance Company (with 12.8% of issued policy shares) ranks third, in close competition with Asmari Insurance Company (with 10% of issued policy shares). Moreover, regarding loss ratio, Razi Insurance Company ranks first among free-zone insurance companies, indicating its more appropriate monetizing and profitability than its competitors, namely Omid and Asmari insurance companies. Thus, the main research problem is to investigate the role of EO and KM in the organizational performance of insurance companies. In light of the above, the present study examines the role of EO and KM in the organizational performance of insurance companies. In this study, Razi Insurance Company was selected as the statistical population.



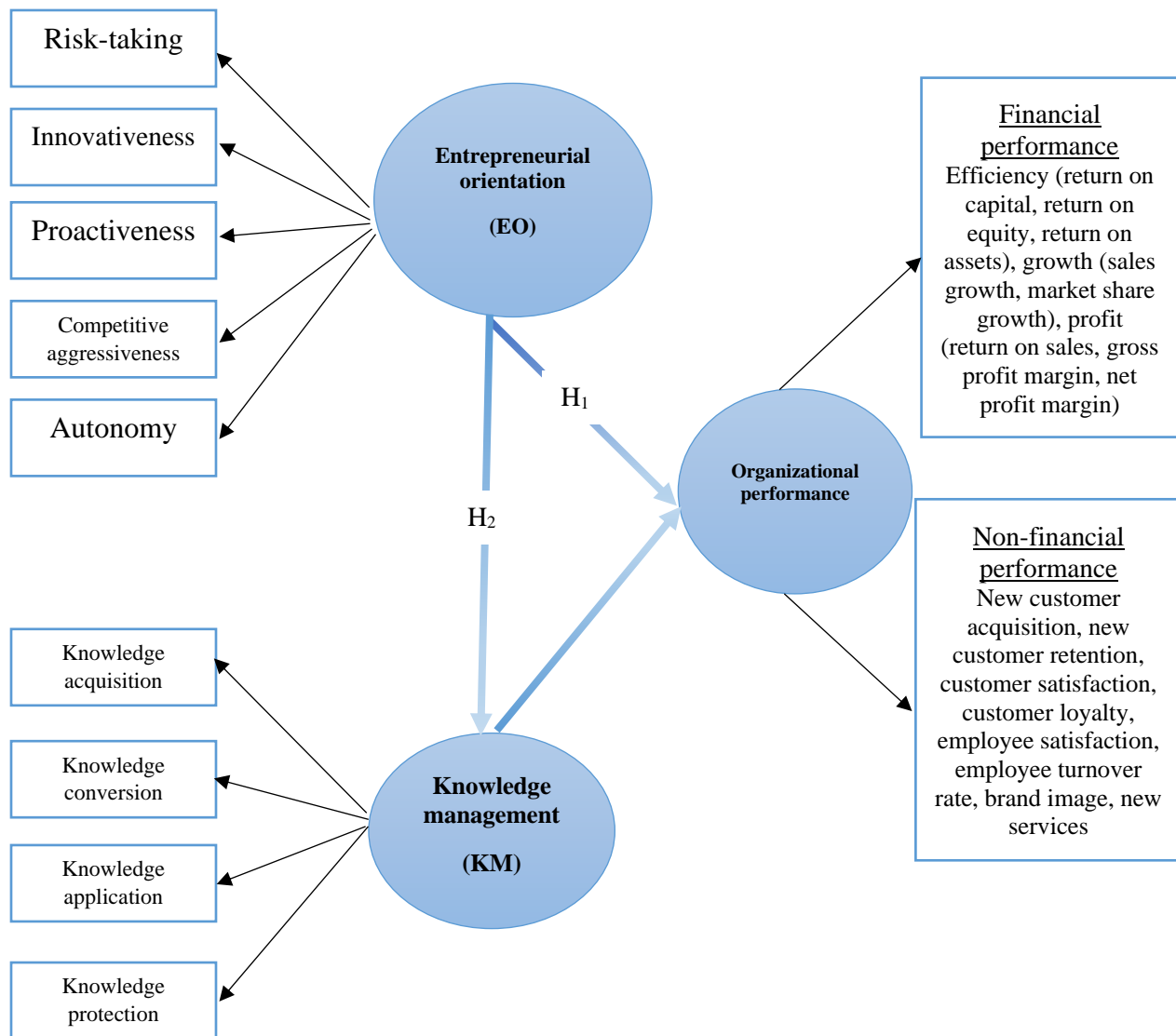


Figure 1: Conceptual model of the research

Research Method

This is an applied research study in terms of purpose and descriptive-correlational in terms of data collection method; therefore, it can be categorized as a structural equations-type descriptive-correlational research study. The statistical population consisted of all employees and managers in Razi Insurance Company (n=101). Due to the limited statistical population, this research evaluated all the employees and managers of Razi Insurance Company by using the census method. For this purpose, questionnaires were sent to all 101 individuals, and finally, 97 questionnaires were answered (returned). Therefore, the sample size consisted of 97 employees and managers in Razi Insurance Company.

The EO questionnaire, by Hughes and Morgan (2007) is applied in British companies to measure the EO construct and the five [EO] dimensions of Lumpkin and Dess (1996) (i.e., risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy). The questionnaire consists of 18 items on a 5-point Likert scale. Many studies employed the above questionnaire across the country (for example, Hosseini Moghaddam and Hejazi, 2014). In addition, Gold et al.'s (2001) questionnaire is employed to measure KM and its four dimensions (i.e., knowledge acquisition, knowledge conversion, knowledge application, and knowledge protection) utilized by different industries. The questionnaire consists of 36 items on a 5-point Likert scale. To measure the organizational performance construct in financial and non-financial dimensions, Lee et al.'s (2008) questionnaire (consisting of 5 items on a 5-point Likert scale), based on the valid research of Murphy et al. (1996) and Parnell et al.'s (2006) questionnaire (consisting of 7 items on a 5-point Likert scale) are used, respectively.

Table 1: Convergent validity (average variance extracted [AVE] of constructs)

Variable	AVE	Variable	AVE
Entrepreneurial orientation	0.52	Knowledge acquisition	0.51
Risk-taking	0.56	Knowledge conversion	0.57
Innovativeness	0.80	Knowledge application	0.63
Proactiveness	0.71	Knowledge protection	0.62
Competitive aggressiveness	0.92	Organizational performance	0.53
Autonomy	0.79	Financial performance	0.75
Knowledge management	0.51	Non-financial performance	0.55

Table 1 lists each research construct's average variance extracted (AVE). As can be seen, $AVE > 0.5$ for each construct indicates an acceptable convergent validity.

Table 2: Reliability index of the research model

Variable	Cronbach's alpha	Composite reliability	Variable	Cronbach's alpha	Composite reliability
Entrepreneurial orientation	0.772	0.808	Knowledge acquisition	0.879	0.904
Risk-taking	0.711	0.719	Knowledge conversion	0.789	0.836
Innovativeness	0.878	0.925	Knowledge application	0.917	0.933

Proactiveness	0.795	0.879	Knowledge protection	0.897	0.921
Competitive aggressiveness	0.916	0.959	Organizational performance	0.914	0.928
Autonomy	0.937	0.950	Financial performance	0.918	0.939
Knowledge management	0.910	0.925	Non-financial performance	0.855	0.893

As shown, Cronbach's alpha and composite reliability are above 0.7 for the research variables, confirming the appropriate model index reliability.

Findings

Table 3 lists each research variable's mean and standard deviation (SD) separately. As can be seen, the innovativeness structure (3.869) has the highest average, and the competitive aggressiveness structure (2.832) has the lowest average. Likewise, knowledge conversion (0.422) and innovativeness (0.830) constructs have the lowest and highest SD, respectively.

Table 3: Mean and SD of research constructs

Variable	Mean	SD	Variable	Mean	SD
Entrepreneurial orientation	3.310	0.428	Knowledge acquisition	3.106	0.547
Risk-taking	3.725	0.488	Knowledge conversion	3.317	<u>0.422</u>
Innovativeness	<u>3.869</u>	<u>0.830</u>	Knowledge application	3.389	0.630
Proactiveness	3.261	0.760	Knowledge protection	3.485	0.700
Competitive aggressiveness	<u>2.832</u>	0.505	Organizational performance	3.447	0.596
Autonomy	2.863	0.765	Financial performance	3.485	0.758
Knowledge management	3.324	0.425	Non-financial performance	3.409	0.552



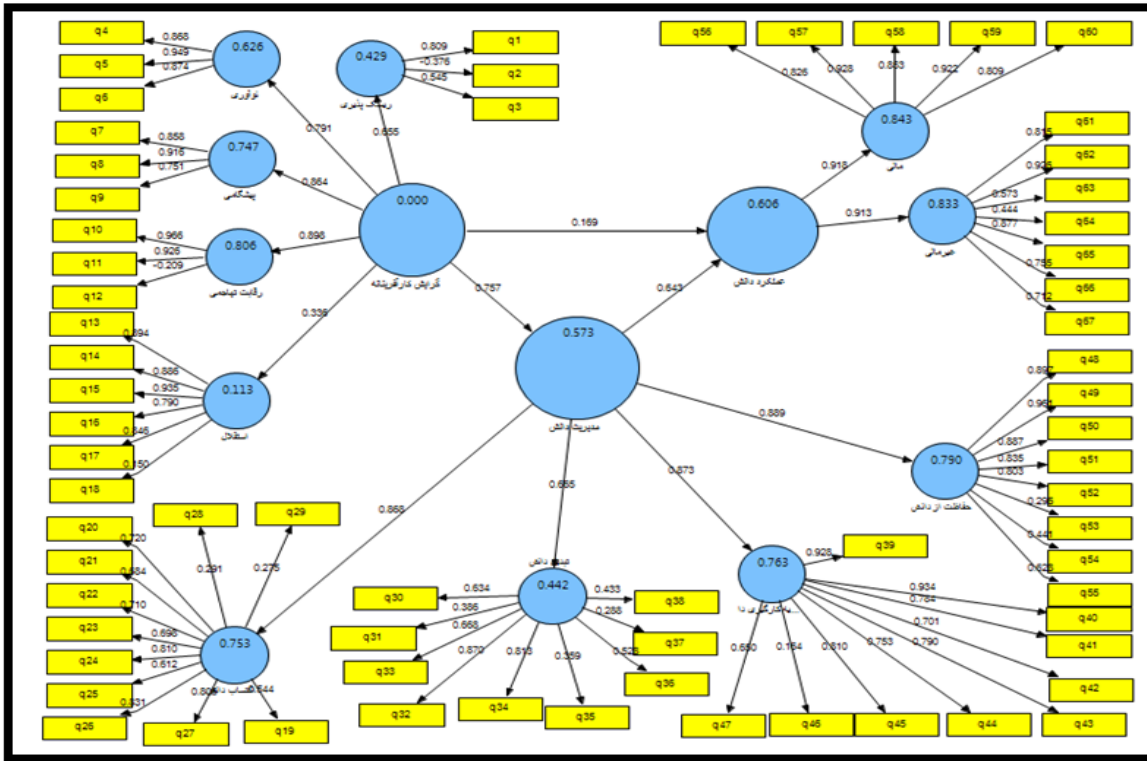


Figure 2: Research model with standardized coefficients

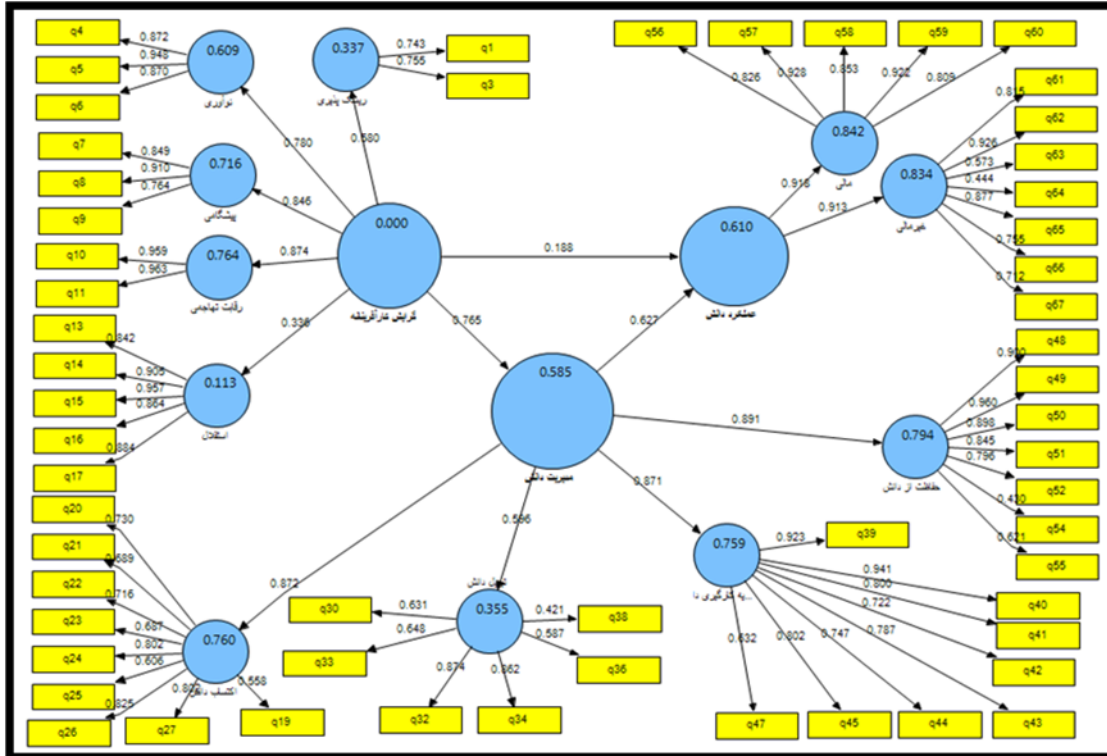


Figure 3: Adjusted research model with standardized coefficients

The goodness-of-fit (GOF) index is used to measure the fit of the overall research model. Checking the GOF helps the researcher control the fit of the measurement and structural parts of the overall research model. Herein, the GOF was obtained as 0.680, indicating a strong fit of the overall research model.

According to Table 4, only the "autonomy" variable is less than weak, and the rest have values higher than average and strong.

Table 4: R2 value of research variables

Variable	R ²	Variable	R ²
Risk-taking	0.337	Knowledge acquisition	0.760
		Knowledge conversion	0.335
Innovativeness	0.609	Knowledge application	0.759
Proactiveness	0.716	Knowledge protection	0.794
Competitive aggressiveness	0.764	Organizational performance	0.610
Autonomy	0.113	Financial performance	0.842
Knowledge management	0.585	Non-financial performance	0.834



Table 5: Evaluation of the results

N.	Hypothesis	Standardized coefficient	t-statistic	Result
1	EO → OP*	0.188	4.567	Confirmed
2	EO → KM	0.765	23.797	Confirmed
3	KM → OP	0.627	14.874	Confirmed

*OP = Organizational Performance

Conclusion

This research aimed to explore the effect of entrepreneurial orientation (EO) on organizational performance through knowledge management (KM). According to the results of structural equation modeling (SEM), the impact and significance coefficients of the relationship between EO and organizational performance were 0.188 and 4.567, respectively. A relationship is significant when the significance coefficient is higher than 1.96. Accordingly, there was a significant direct relationship between EO and organizational performance in Razi Insurance Company. In this regard, Sanjaghi et al. (2013) and Hosseini Moghaddam and Hejazi (2014) indicated a significant direct relationship between EO and organizational performance.

Moreover, Mobaraki et al. (2012) stated that EO has a relatively strong effect on insurance firms' performance, with each of its dimensions having an unequal effect despite their high correlation

(risk-taking, innovativeness, and competitive aggressiveness with the greatest impact and proactiveness and autonomy with the least impact). Stam and Elfring (2008), Lee et al. (2008), and Hughes and Morgan (2007) showed a significant positive relationship between EO and firm performance. Nahid et al. (2016) noticed a positive relationship between EO and organizational performance and the indirect effect of EO dimensions (innovativeness, proactiveness, risk-taking, and competitive aggressiveness) on organizational performance. In addition, Lampkin et al. (2009) believed in the high correlation between EO and organizational performance due to several internal and environmental factors, including the cultural context.

According to the results, the significance and impact coefficients of EO to KM were 23.797 (>1.96) and 0.765, respectively, indicating a significant direct effect of EO on KM in Razi Insurance Company. In line with the research results, Lee & Sukoco (2007) demonstrated that EO positively affects KM, new product development (NPD), expansion of organizational competencies, and organizational effectiveness. They also indicated that KM strongly affects organizational effectiveness and innovativeness. Finally, social capital moderates the relationship between KM and EO with the independent research variables. Also, Mohammadi Moghaddam et al. (2012) displayed a significant direct relationship between EO and KM.

In addition, the significance and impact coefficients of KM->OP path were 14.874 (>1.96) and 0.627, respectively, a significant direct indicator of KM impact on organizational performance in Razi Insurance Company. In this respect, several studies have been conducted inside and outside the country, confirming the present study's results. For example, Mahmoudzadeh and Sedaghat (2014), Fathian and Cheraghali (2014), and Shams Mourkani and Sadeghi (2010) concluded that there is a significant direct relationship between KM and organizational performance. Also, Badri Azin et al. (2012) demonstrated that knowledge recognition, knowledge acquisition, and knowledge sharing have a significant positive relationship with employee performance among KM indicators. Among foreign research, Awang et al. (2010) and Gold et al. (2001) showed a relationship between KM and organizational performance. Darroch (2005) implied that companies with higher KM performance have better performance and innovativeness. Moreover, Zahra & George (2002) and Seleim & Khalil (2007) stated that the acquired knowledge application could help transform potential capabilities into dynamic capabilities, affecting organizational performance.

The results also indicated that EO affects organizational performance through KM (the mediating variable). In other words, EO (with a significance coefficient of 23.797 and an impact coefficient of 0.765) significantly affects KM. Likewise, KM (with a significance coefficient of 14.874 and an impact coefficient of 0.627) significantly impacts the organizational performance of Razi Insurance Company. Therefore, EO has a significant indirect effect on organizational performance through KM. In this sense, Madhoushi et al. (2011) showed that EO affects organizational performance directly and indirectly (through KM).

Furthermore, Wiklund and Shepherd (2003) affirmed that future opportunities are discovered by combining KM and EO. Through the effective combination of KM and EO, an organization or company is more likely to succeed in discovering opportunities and competencies and, as a consequence, improving its performance. Lee et al. (2009) proved that EO positively increases firm performance; however, when the knowledge creation process is added to this relationship



as a mediating variable, there is still a direct relationship between EO and performance, but to a lesser extent.

Based on the results, managers are proposed to provide and clarify information and the possibility of participation in decision-making for employees for knowledge creation within the company to improve organizational performance. Besides, company managers and employees are proposed to review and focus on the activities of other competitors to increase the application of EO and proactiveness.

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Ethical statements None

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