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**ENTREPRENEURIAL ORIENTATION, FIRM PERFORMANCE, AND THE  
MODERATING ROLE OF ORGANIZATIONAL TRUST IN ALGERIAN FOOD  
INDUSTRY.**

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**ABSTRACT**

This paper aims to examine the relationship between entrepreneurial orientation (EO), organizational trust (OT) and small and medium enterprises (SMEs) within the context of developing country. Cross-sectional research setting was undertaken in 2018. A survey was distributed in purposive sampling technique to SMEs operating in the food sector. Owner/manager are the study respondents, as they are considered the soul of SMEs (Gunawan, Jacob & Duyster, 2015). This study applied smart PLS in order to test the hypotheses exist in the direct relationship between entrepreneurial orientation and small and medium enterprises, and the moderating influence of organizational trust in the relationship between entrepreneurial orientation and small and medium enterprises.

**KEYWORDS:** Entrepreneurial orientation, Organizational trust, SMEs, Food sector.

**INTRODUCTION**

Food sector is one of the important sector that can give a strong influence in the Algerian economy. Food sector is selected in this paper among others for some reasons. Firstly, in reality the food industry in Algeria has not yet achieved the standard requirement for the country's food provision. Algeria still cannot cover the foods needs of citizens and achieve the food security, moreover, the food gap is still increasing (Zargine & Fawzi, 2014). The alarming increase in food import bills from year to year at a record level reflected the dependency to foreign markets (Guendouz, Belhimer & Kassemi, 2015). Secondly, according to Echorouk newspaper (2017), the food imports for the first quarter of 2017 has risen to 5.9 \$ billion compared to 5.44 \$ billion in 2016 whereas the country's food export is only 42 \$ million which reflects the huge amount of money that spend in food importation and very low in exportation. Food exports is estimated at 0.24% and it covers only 2% of overall food imports making Algeria as one of the top ten countries in the world in terms of importing food (Zargine & Fawzi, 2014).

In addition to that, the daily basic food of citizen keeps increasing in costs regardless to mention to other types of food that keep raising tremendously and illogically. Notwithstanding the alarming statistics, there are limited studies examining the issues connected to SMEs performance of food industry in Algeria.

The study selects SMEs as a unit of analysis because what is measured in this study is SME, and owner/manager of these enterprises are the respondents who can answer the questionnaire due to their positions in the firms. EO is the study antecedent and performance is the dependent construct of this paper.

The sample size of this study is 205 Algeria SMEs operating in food and beverage industry, and purposive sampling technique is used for data collection. This sector is chosen for its significant influence on the economy, national self-sufficiency and employment.

## II. REVIEW OF LITERATURE

### 2.1 Small and medium enterprise

SME is the abbreviation of small and medium enterprise. SMEs play a substantial role in the growth of economy, as they are considered the major source of poverty reduction, employment, revenue, technological advancement and innovation (Fan, 2003). Accordingly, the developed countries' advancement is based on the SMEs, as they represent a vast portion of the global number of companies. Indeed, SMEs predominate most of firms in both developing and developed countries (Asah, Fatoki & Rungani, 2015).

In general, it is difficult to find a consensus definition of SMEs. Noticeably, there are many definitions and they are different from state to state and from one country to another. In fact, according to Baenol (as cited in Bouazza, 2015), these definitions' differences were based on some common criteria like, size of the labor force employed, total assets, capital investments and annual turnover. The annual revenue, the number of employees, the sector, the growth, the economic activity, production scale, and the investment outlay are other criteria that are found in different SMEs definitions. Arowomole (2000) claimed that there is no consensus definition of SMEs, as different countries have different standards in defining SMEs. Certainly, SME definition has no consensus criteria.

Many individuals and organizations have identified SMEs differently, for instance, a firm that is identified a small or medium in a particular country can be seen different in other country (Bouazza, Ardjouman & Abada, 2015). As an evidence for this, from a survey done by the World Bank, it has indicated over 60 different definitions on SME used in 75 country. However, it has been found that most of them used definitions based on the employee number or the amount of capital investments (Cyril Eze, Gan Guh, Yih Goh & Tan, 2013). The following table illustrates SME definition in Algeria where this research is conducted, and other locations i.e. Malaysia and European Union.

**Table1: the General Secretariat of the Algerian Government**

<i>Algerian SMEs definition</i>			
Category	Staff Headcount	Turnover Or / and	And / Or annual revenue
Micro	From 1 to 9 persons	Not exceeding 180201 USD	Not exceeding 90100 USD
Small	Between 10 and 49	Not exceeding 1802012 USD	Not exceeding 901006 USD
Medium-sized	From 50 to 250 persons	Between 1802012 USD and 18020128 USD	Between 901006 USD and 18005000 USD

As shown in the table1, three criteria to distinguish a firm type depend on the employees' number, turnover and annual revenue. These criteria are related to Algeria context; however, other countries like Malaysia and European Union have different criteria as illustrated in the following tables.

**Table 2: <http://www.smecorp.gov.my/> /2015/SMEs-definition**

<i>Malaysian SMEs definition</i>			
Category	Micro	Small	Medium
Manufacturing	Sales turnover less than 71 491 USD, OR full time employees from one to/ less than five.	Sales turnover from 71 491 USD to less than 3 574 577 USD, OR full time employees from five to/ less than 75 employee.	Sales turnover from 3 574 577 USD to not exceeding 1 1915 258 USD, OR full time employees from 75 and/ not exceed 200.
Services/other sectors	Sales turnover less than 71 491 USD, OR full time employees from one to/ less than five.	Sales turnover from 71491 USD to less than 714915 USD, OR full time employees from five to/ less than 30.	Sales turnover from 714915 USD and not exceed 4766103 USD, OR full time employees from 30 and/ not exceed 75.

In the context of Malaysia, it is clearly shown that it is distinguished comparing to Algerian context. This latter does not mention on the category of SME whether it is manufacturing or services as mentioned in Malaysian context. In addition, the criteria that are mentioned in the Malaysian context is different as well from the criteria of Algeria context. A number of employees, turnover and annual revenue are the standards in Algerian SMEs, however, Malaysia SMEs definition depends only on two criteria which are sales turnover and the number of employee. These two criteria are related to both manufacturing and services sectors SMEs.

**Table 3: The European Communities commission (EUR-Lex).**

<i>The EU SMEs definition</i>			
Category	Staff headcount	Turnover Or/ and	And / Or Balance sheet revenue
Micro	Less than ten.	Not exceeding 2 Mil €	Not exceeding 2 Mil €
Small	Less than 50.	Not exceeding 10 Mil €	Not exceeding 10 Mil €
Medium	Less than 250.	Not exceeding 50 Mil €	Not exceeding 43 Mil €

Another example of different definition from the mentioned ones. The above table illustrated other criteria which are not mentioned neither in the Algerian definition nor in the Malaysian definition. However, European SMEs definition looks close in definition to the Algerian SMEs definition, because the Algerian legislator inspires the SMEs definition from the EU context. From the employee number criteria, European and Algerian SMEs definitions are same. Except this criterion, the rest criteria whether in EU, Algeria or Malaysia are distinct.

**2.2 Entrepreneurial orientation**

EO is one of the most known construct in the last three decades, and it has become as one of the most studied construct in the literature (Anderson, Kreiser, Kuratko, Hornsby & Eshima, 2015). Researchers revealed that the theoretical origins of EO is found in the literature of strategy process (Wales, 2016; Mintzberg, 1973). Miller (1983) was the one who established and developed this concept and later on Covin and Slevin (1989) extended it. Therefore, EO was initiated more than 30 years ago and it became a well-known construct in the field of strategy and entrepreneurship (Wales, Gupta & Mousa, 2013), and during all this time, literature review showed different EO definitions.

Knight (1997) defined EO as “the firm’s propensity to engage in innovative, proactive, and risk-seeking behaviors in order to achieve strategic and performance objectives” (p.355). Another definition of EO is the structures, behaviors of companies and processes that are characterized by

proactiveness, innovativeness, and risk taking (Covin & Slevin, 1988; Miller, 1983). Covin, Slevin and Miller indicated that EO consists of only three dimensions that are proactiveness, innovativeness, and risk taking as it is shown in the latter definition. However, after more than one decade of the work of Miller (1983), Lumpkin and Dess (1996) included aggressiveness and autonomy as additional dimensions. According to Lumpkin & Dess (1996), EO is “A propensity to act autonomously, a willingness to innovate and take risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities” (p. 137).

Indeed, prior studies indicated that EO can be measured from only three dimensions; however, some other studies argued that five dimensions adding aggressiveness and autonomy can measure this construct. Nevertheless, most scholars agreed that EO measure is based on only these three dimensions (Abebe, 2014; Amin, 2015; George & Marino, 2011).

## 2.2.1 Innovativeness

Innovativeness is a dimension of the EO and it is essential for organizational performance. Without innovation, SMEs would have to rely on traditional distribution process, and traditional methods of doing business with traditional products (Jalali, Jaafar & Ramayah, 2014), that are considered weak compared to competitors who runs business in sophisticated and innovative manners.

Covin and Slevin, (1989) defined innovativeness as “the willingness to place strong emphasis on research and development, new products, new services, improved product lines, and global technology in the industry”. However, Lumpkin and Dess (2001) defined entrepreneurial innovativeness as the “willingness to support creativity and experimentation in introducing new products/services, novelty, technological leadership and R&D in developing new processes” (p. 431). Obviously, engagement or willingness to innovate, and the behavior that leads to new products or process are the most important elements of innovativeness.

## 2.2.2 Proactiveness

Proactiveness is the propensity of creating needs and initiating actions. Lumpkin and Dess (2001) defined proactiveness as: “opportunity-seeking, forward-looking perspective involving new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment” (p. 431), however, Covin and Slevin (1989) defined proactiveness by emphasizing on aggressiveness. They argued that proactiveness is the tendency to take initiative for aggressive competition with other enterprises (Covin & Slevin, 1989).

In contrary, Frank, Fink and Kessler (2010) focused their definition on the timing of market entry. They claimed that proactiveness is “the aspect of a firm’s strategic trend that refers to the firm’s ability to anticipate in new developments as early as possible and to act as a-first mover- before competitors, rather than to wait for new developments in the market and then react to them accordingly”. Therefore, proactiveness is the ability to anticipate, detect signs and future needs as

well as the ability to make the first move in the competitive market, seize and exploit the opportunity first.

### **2.2.3 Risk takings**

Risk-taking is another dimension that allows managers to launch a new service/product, enter new markets, capital investment, and recruiting more employees (Rauch, Wiklund, Frese & Lumpkin, 2009).

Miller and Friesen (1978) identified risk-taking as the willingness to commit sizeable amounts of resources to projects with unknown outcomes with a risk of failure. In other definition, risk-taking referred to “bold moves into unknown business areas and/or the commitment of significant resources to business activities under conditions of uncertainty” (Chang & Chen, 1998; Gunawan, Jacob & Duysters, 2015; Lumpkin & Dess, 1996). These definitions are most likely reflects the intended concept because taking risk is truly bold behavior towards uncertainty, unknown outcomes, or risk to failure.

### **2.3 Entrepreneurial orientation and performance**

EO as a strategic resource is known as a critical process that assists an enterprise to improve and survive its performance (Khalili, Fazel & Nejadhussein, 2013; Miller, 1983; Tajeddini, Larsen & Trueman, 2006). However, literature showed inconsistency findings in the relationship between these two constructs (Martin & Javalgi, 2015; Rauch, Frese, Wiklund & Lumpkin, 2009).

Tang, Z. Tang and Cowden (2016) examined this relationship, and they found it strong. This is supported by Silver, Johanson and Berggren (2016), Omar, Aris and Nazri (2016), Ibrahim and Mahmood (2016) who acquired the same results. However, Buli (2017), examined the same relationship and they concluded that not all dimensions have positive relationship with performance. This is sustained by Filser and Eggers (2014), Ambad and Wahab (2013); Yoon (2012) and Larsen and Korneliussen (2012). Therefore, this mixed findings call for more investigation to reconfirm the findings. Mixed finding is not the only reason for conducting this paper, but also contextual gap and lack of such studies in developing countries like Algeria.

In other word, most of EO preceding studies were undertaken in the USA (McGee & Peterson, 2017; Jogaratnam, 2017). Other than the USA, some other studies were conducted in Europe for instance Spain (Rigtering, Eggers, Kraus & Chang, 2017; Hormiga, Esther, et al., 2017), Sweden (Florén, Rundquist & Fischer, 2016; Silver, Johanson & Berggren 2016), Austria (Kallmuenzer, Strobl & Peters, 2017; Fellnhofer, Puumalainen & Sjögrén 2016). Finland (Hakala, 2013; Shirokova, Bogatyreva, Beliaeva & Puffer, 2016), and lastly, Poland and Australia (Kowalik, Danik & Sikora, 2017; Sok, Lee, Snell & Sok, 2017).

Similarly, in the Eastern world, many studies can be found in Malaysia, Indonesia, China and Korea, (Amin, Thurasamy, Aldakhil & Kaswuri, 2016; Asizah, Harafah, Nurwati & Baheri, 2016; Chavez, Yu, Jacobs & Feng, 2016; Yoon, 2012). Therefore, many researchers have been done in Western and Eastern world, but few studies have been established in other countries (Alam, Mohd, Kamaruddin & Nor, 2015). In Arab countries in particular, there are only few related studies conducted in UAE (Al-Dhaafri & Al-Swidi, 2016; Al-Dhaafri, Yusoff & Al-Swidi, 2016), and Tunisia (Belgacem, 2015). With regards to these limited studies, further analysis must be conducted in Algeria to reconfirm the influence of EO on performance. The country's difference in values, principals, culture, and religion may be an advantage for diversified findings to this relationship.

Regardless to the context gap, EO has been mostly studied in countries with a mature economic condition such as the United States (Gupta & Batra, 2015). However, limited studies can be seen in emerging economies of developing countries (Belgacem, 2015) like Algeria, compared to mature western countries.

## **2.4 Organizational trust**

It has been observed that most of prior studies using trust as independent variable in relationship with performance (Abdallah, Abdullah & Mahmoud Saleh, 2017; Eser, 2012), or as a mediator to performance (Chan, Chan & Mak, 2016; Ismail, 2011; Koohang, Paliszkievicz & Goluchowski, 2017). Otherwise, very few study examined OT as a moderator (Micheels & Gow, 2011; Afzal & Umair Afzal, 2014).

It is noted that studies on trust as moderator are very limited. Thus, this study is interested to explore more on the relationship to strengthen the earlier findings or not and to expand the body of knowledge.

## **2.5 Resource based view theory**

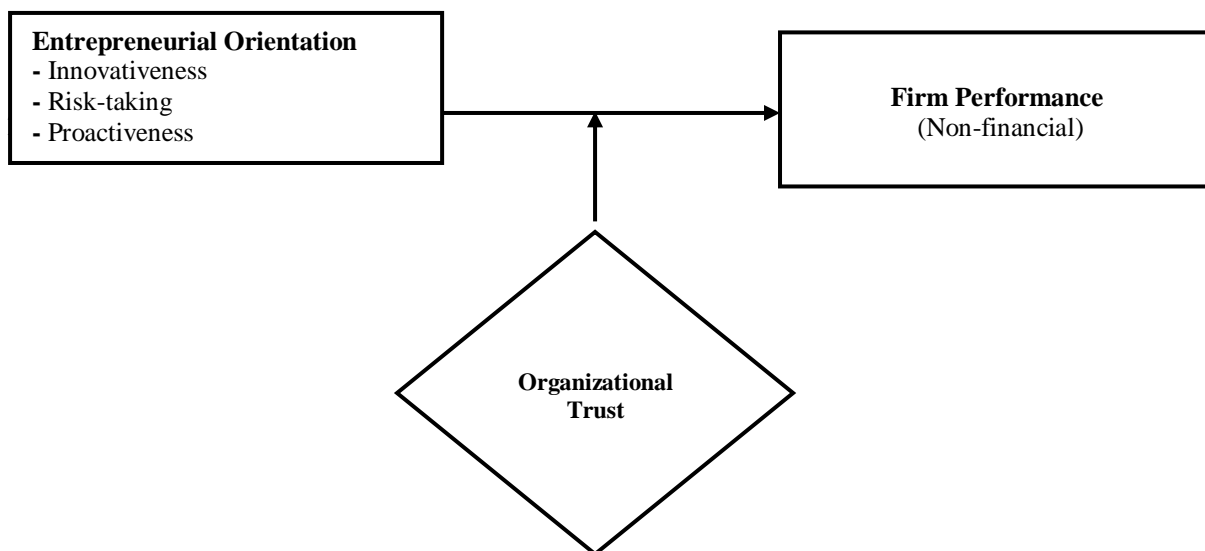
Resource-based view theory (RBV) is the main theory of this study, and can explain EO-performance relationship. RBV is considered as one of the most well-known and accepted theory in the management science (Kellermanns, Crook, Walter, Narayanan & Kemmerer, 2016; Nyberg, Moliterno, Lepak & Hale, 2014). According to Barney (1991) and Collis (1994) who argued that RBV focused on internal resources that have an influence on performance in order to realize a competitive advantage.

By highlighting the assumptions of this theory, entrepreneurial orientation has been considered as the main resource that can help firm to improve its performance (Abdi, S.N.A, Awan & Bhatta, 2008; Weerawardena & Coote, 2001). Nevertheless, creativity, proactiveness, innovativeness are also an important resources for survival and growth (Bucktowar, Kocak & Padachi, 2015).



A resource is anything that can be seen as a strength for an organization (Wernerfelt, 1984), however, a firm resource could be tangible or intangible, and EO is an intangible resource with ability to lead the firm to realize competitive advantage (Abdi et al., 2008; Runyan, Huddleston & Swinney, 2006). EO as an organizational capability or internal intangible resource is valuable for detecting opportunities and new market, and cannot easily be substituted or imitated by competitors (Barney, 1991; Lonial & Carter, 2015). These features and qualities allow EO to perform as a strong resource for greater firm performance and competitive advantage (Aloulou & Fayolle, 2005; Madsen, 2007; Grande, Madsen & Borch, 2011; Wiklund & Shepherd, 2011).

Figure 1: Theoretical Framework



The above figure serves as a base of this research. The objective of this paper is to examine the relationship between the EO and performance in food and beverage sector in Algeria.

There are three dimensions of the antecedent, and the dependent variable reflects the market share, product sales, profits, customer satisfaction, rate of employees and number of customers in the company. Based on this model, three hypotheses can be emerged as illustrated in the following.

### 2.6 Development of hypotheses

In this paper, two hypotheses are developed to examine the influence of EO and SME in the Algerian food industry and the following shows the hypotheses of this study:

**H<sub>1</sub>** There is a positive relationship between EO and SMEs performance.

**H<sub>2</sub>** Organizational trust moderates the relationship between EO and SMEs performance.



**III. RESEARCH METHODOLOGY**

The present empirical paper examines the influence of EO as independent variables and OT as a moderator on SMEs performance in Algerian food and beverage sector. EO consists of three dimensions; however, subjective instead of objective measure of firm performance was applied in this study because managers / owner are not ready to give their sensitive information of their firms to outsiders (Sapienza, Smith & Gannon, 1998). Performance was measured by market share of firm and product sales, profits, customer satisfaction, rate of employees and number of customers.

Cross-sectional research setting conducted during 6 months, starting from early April to September 2018. Questionnaire was distributed using self-administered method and non-probability purposive sampling technique used for data collection and 205 is the final data used after screening. SME is the unit of analysis, and owner/managers are the study respondents as they are the soul of SMEs (Gunawan, Jacob & Duyster, 2015), and they are the only who can answer the items of organizational variables of this study.

**IV. RESULTS AND DISCUSSION**

The discriminant validity of the model was confirmed by the higher value of the diagonal elements than other elements of the row and columns. As a result, when the construct validity of the outer model confirmed, it is assumed that hypotheses results should be valid and reliable as shown in the following table.

**Table 4:** Discriminant Validity-Fornell & Larcker

	EO	OT	SME
EO	<b>0.747</b>		
OT	0.732	<b>0.777</b>	
SME	0.719	0.741	<b>0.825</b>

As the hypotheses are valid and reliable according to the above discriminant validity, then, the study applied PLS-SEM in order to test these hypotheses relationship between the EO and SME performance as illustrated in the table 5.

**Table 5:** Outer Model Assessment

	Hypotheses	Original Sample	T Statistics	P Values	Decision
H1	EO -> SME	0.114	2.360	0.009	Accepted
H2	EO*OT -> SME	0.135	3.894	0.000	Accepted

first hypothesis that EO has positive relationship with SME performance ( $\beta=0.114$ .  $t=2.360$ .  $p<0.009$ ). Results revealed a positive relationship between these EO and SME performance. Therefore, H1 is supported. Similarly, the findings also reported in the second hypothesis that OT moderates the relationship between EO and SME performance ( $\beta= -0.135$ .  $t=3.894$ .  $p<0.00$ ). Then H2 is supported.

## V. CONCLUSION

An empirical paper was made to investigate the moderating influence of OT in the relationship between EO in relation with SMEs. The study was applied in the food sector, and the findings illustrated two positive and significant relationship. This findings are supported by Mahrous and Genedy (2019) and Mantok, Sekhon, Kaur Sahi and Jones (2019) in direct relation, and with OT as moderator with the study of De Clercq, Dimov and Thongpapanl (2010) who studied the moderating influence of trust in the relationship between entrepreneurial orientation and performance. The finding indicated a moderating effect of trust in the relationship between entrepreneurial orientation and performance.

It is recommended for upcoming studies to examine more the influence of OT with other constructs. Moreover, it is recommended to set this relationship but with different sector, in order to extend the findings and enrich the literature as well.

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