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Effects of Differentiation Strategy as a Mediating Variable in the Relationship between Entrepreneurial Orientation and SMEs Performance: A Study of Indian SMEs

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ABSTRACT

Purpose: The present study is an attempt to examine the relationship between Entrepreneurial Orientation (EO) and Small and Medium Enterprises (SMEs) performance. The study further tries to explore the impact of Differentiation Strategy (DS) as a mediating variable between the two.

Design/Methodology/Approach: The researchers distributed 500 questionnaires to Small and Medium Enterprises (SMEs) belonging to various industries. Out of 500, 234 respondents completed the survey, hence, the study recorded response rate of 46.8 percent.

Findings: The findings demonstrate a positive and significant impact of EO on DS and SMEs performance. Furthermore, the effect of DS on SMEs performance is also positive and significant. The mediation analysis validates a case of partial mediation of DS between EO and SMEs performance.

Practical Implications: The SMEs with higher EO will be more willing to implement DS. The analysis displays that DS playing the mediating role among EO and SMEs performance by positively affecting the performance.

Originality/Value: The study advocates that in order to improve SMEs performance, the companies must pay serious attention on EO. The study also offers a holistic view on the importance of DS in enhancing the performance of SMEs in India.

JEL Classification Code: M10, M19.

Keywords: Entrepreneurial Orientation, Differentiation Strategy, SMEs, Performance.

1. INTRODUCTION

Small and Micro enterprises (SMEs) play a strategic role in development of economy in view of their magnitude in terms of number of enterprises, and in terms of employment. India in no exception to this, 90 percent of the industrial units exist in this sector, employing 40% of Indian work force, and contributing nearly 30.74 percent to GDP (MSME, 2016). SMEs promote inclusive and sustainable economic growth; generate employment by fostering innovation and entrepreneurship (OECD, 2017; Lyon, Lumpkin, & Dess, 2000) Therefore it becomes imperative to promote growth and sustainability of SMEs by providing adequate infrastructure support, easily availability of funds and others facilitating factors (Ng and Kee, 2012). In spite of several government policies, SMEs have faced several challenges in past. This could be attributed to varied impediments that hamper the performance of SMEs, like the dearth of innovation; lack-off marketing and managerial skills; favourable policies; financial support and entrepreneurial orientation (Gupta & Batra, 2016; Mahembe, 2011; Dyer & Ross, 2008). Research suggests that there exist a positive relationship between EO and performance of the SMEs (Gupta & Batra, 2016; Covin & Lumpkin, 2011; Zahra & Covin, 1995), this suggests a clear need for entrepreneurial orientation. Entrepreneurial Orientation (EO) is strategy making process (Lechner & Gudmundsson, 2014); possesses the ability to positively affect the SMEs performance (Wiklund, 1999; Smart & Conant, 1994; Covin & Slevin, 1991); competitiveness (Clausen & Korneliusen, 2012); and profitability (Gupta & Batra, 2016). Some existing studies find that EO enables small firms to outperform their competitors by enhancing their performance and provide them with competitive advantage (Li, Huang, & Tsai, 2009; Wiklund & Shepherd, 2005; Ireland, Hitt, & Sirmon, 2003; Lumpkin & Dess, 2001). SMEs with superior levels of EO are expected to persistently scan and observe the acts of entrepreneurship so as to uncover fresh opportunities and build up their competitive stand (Edmond & Wiklund, 2010; Covin & Miles, 1999). Therefore SMEs need to adopt EO for better performance and growth.

The effect of EO has been empirically tested by many researchers. However, not much research is done to understand how mediators affect relationship between EO and SMEs performance, especially in Indian context. The researchers suggest that differentiation strategy mediate the relationship between EO and SMEs performance (Gupta & Batra, 2016; Amin, Thurasamy, Aldakhil, & Bin Kaswuri, 2015; Zehir, Can, & Karaboga, 2015; Lechner & Gudmundsson, 2014), as there exist a strong linkage between strategy, SMEs performance and competitive advantage to generate above-average returns (Porter, 1980). Differentiation means to provide the customer a superior value in from product design, quality of product, features of or after-sales support, etc. (Lechner & Gudmundsson, 2014; Grant, 1998). The studies suggest the SMEs having greater EO are likely to be more innovative and competitive aggressive, and thus adopt strategy that differentiate them from their competitors. The understanding of influence of differentiation strategy on EO-SMEs performance relationship is of practical importance to SMEs performance.

Therefore, this study aims to examine the mediating effect of differentiation strategy on the relationship between EO a multidimensional construct and SMEs performance.

2. THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT

2.1. Entrepreneurial Orientation

Entrepreneurial Orientation (EO) has emerged as predominant constructs in the area of entrepreneurship and extensive management research (Covin & Miller, 2014). The area of research for EO has broadened and has

achieved significant traction among scholars beyond exclusively entrepreneurship domain-specific journals (Wales, Gupta, & Mousa, 2013). Covin and Lumpkin (2011) stated that the evolution of EO is extensively debated in literature and through theoretical acknowledgement of the EO construct; entrepreneurship is merely noted above as a particular act or an activity, like initiation of novel innovation, it is a comprehensive strategic demeanour. EO concept has gained wide acceptance and applicability universally. This is evident in the literature wherein EO is amongst stabilized concepts (Basso et al., 2009; Covin & Wales, 2012). EO research primarily focuses on the SME-level entrepreneurship (Slevin & Terjesen, 2011). Anderson and Eshima (2013) stated that EO refers to the behavioural tendencies of the entrepreneurs, the managerial philosophies adopted by them and the strategic decision making done by them within the business environment. EO concept proposes that in quest to accomplish the exceptional performance the SMEs are desired to be entrepreneurial in nature (Anderson, Kreiser, Kuratko, & Eshima, 2015; Dess, Pinkham, & Yang, 2011). EO helps in understanding how entrepreneurs and managers can become conversant with their organizations, so as to attain competitive advantage (Anderson & Eshima, 2013). Comprehensively, scholars put forward that SMEs achieve competitive advantage with the help of exceptional organizational efficiency through EO's influence. EO's usefulness therefore seems to derive largely from its role in serving SMEs and becoming better at meeting their business objectives.

The five dimensions salient to EO are being diagnosed and regularly used: Innovativeness; risk taking; proactiveness; competitive aggressiveness and autonomy (Monteiro, Soares, & Rua, 2017; Amin et al., 2015; Ferreira et al., 2015; Mason, Floreani, Miani, Beltrame, & Cappelletto, 2015; Covin & Miller, 2014; Kahlili, Nejadhussein, & Fazel, 2013; Kreiser, Marino, Kuratko, & Weaver, 2013; Lee & Lim, 2009; Kropp, Lindsay, & Shoham, 2006; Lumpkin and Dess, 1996; Venkatraman, 1989; Miller, 1983). Miller (1983) advocated three dimension of EO; innovativeness, risk taking and proactiveness. Later, Lumpkin and Dess (1996) contributed two added dimensions; competitive aggressiveness and autonomy. Innovativeness is predilection of the SMEs to engage in the activities of experimentation and creativity with an objective to introduce new ideas, products, services, markets, processes or organizations (Kjellberg, Azimont, & Reid, 2015; Lily & Hartini, 2010). Risk taking refers to bold initiatives taken by SMEs into the business ventures where possibility of positive results are unknown, entrepreneurs borrow profoundly and allocate resources to the business under the environment full of uncertainty (Gunawan, Jacob, & Duysters, 2015; Lechner & Gudmundsson, 2014; Lumpkin & Dess, 1996). Proactiveness refers to preparedness and anticipation towards potential challenges; it is strategic positioning of a SMEs against its competitors in order to gain the first mover advantage (Monteiro et al., 2017; Frank, Kessler & Fink, 2010; Lumpkin & Dess, 1996).

The competitive aggressiveness is defined as earnestness of SMEs endeavour towards surpassing competitors by putting in efforts to outperform them and is categorized as vigorous offensive positioning or by giving dynamic answer to aggressive threats from competitors. Autonomy is actions taken independently by entrepreneurs or their teams concentrating at bringing up a novel idea, a venture and brings it to completion (Lumpkin & Dess, 1996).

2.2. EO and SMEs Performance

Existing research argues that there is continuous risk to SMEs performance especially, profit earnings in the present business world, due to shortening of product life cycles and business models (Wiklund & Shepherd, 2005). In such a situation EO plays a significant role in boosting profitability by constantly seeking

new opportunities (Rauch, Wiklund, Lumpkin, & Frese, 2009), enabling SMEs to gain the competitive advantage, capacity to demand price at a premium and keeping ahead of the competitors and enhancing the SMEs performance (Stam & Elfring, 2008). There is a possibility that SMEs possessing strong EO create a considerable influence and differentiation as compared to their competitors, aiming at the market share and profitability (Anderson & Eshima, 2013; Richard, Wu, & Chadwick, 2009; Zahra & Gravis, 2000). Further SMEs with strong EO attract new customers and are also effective in retaining the existent customers by cross selling them new products and services. EO is helpful in obtaining and using the information regarding the existing and prospective customers through various channels, developing suitable strategic plan and implementing it in expectation of upcoming and unknown trends in the market in advance of the competitors (Keh, Nguyen, & Ng, 2007).

The contemplation to satisfy the unknown needs of the customers, firms should be committed to be creative, should be exploring new opportunities, creating suitable environment to support new ideas, research and development, hence proving essentials of EO (Covin, Green, & Slevin, 2006). The business opportunity can be seized by entrepreneurial firms by being proactive and grabbing the first-mover advantage by invading the unexplored areas. The customers are ready to pay the higher price for an innovative and superior product, particularly in a situation where competitors are not able to provide alike product (Robinson & Min, 2002). In the situation of competition, the other SMEs are expected to examine new opportunities, brought by the entrepreneurial firms in the market, particularly when the opportunities are related to higher profits (Covin & Slevin, 1991). Therefore, the following hypothesis is proposed:

H1: Entrepreneurial orientation has a significant relationship with SMEs performance.

2.3. Differentiation Strategy and SMEs Performance

According to Barney and Hesterley (2006), differentiation includes offering products and services anticipated to be unique across industry, hence permitting the firms to charge a premium price. There are a number of potential strategies to achieve differentiation strategy including innovativeness, features, service, value, brand image and brand equity. The well planned differentiation should consist of attributes that are difficult to imitate by the competitors. Allen and Helms (2006) assert that differentiation support SMEs in gaining customers loyalty by providing them with unique products and services thusly aiding them to face the competition with better preparedness. Morshett, Swoboda, and Schramm-Klein (2006) conclude that the SMEs practicing differentiation strategy endeavour to establish and market their exclusive products or services for diverse customer faction. Acquaaah and Ardekani (2006) posit that SMEs can accomplish competitive advantage above their competitors through practicing differentiation strategy aided by offering the products or services which are unique. The rareness of differentiation strategy banks on creativity of the SMEs while discovering the novel ideas and processes to differentiate their products. The competitors will always strive to imitate all these firms, but will always be trailing, reason being these creative SMEs with their continuous approach of working on new strategies through differentiation with lead to prosperity (Barney & Hesterley, 2006). Baum, Locke and Smith (2001) comments that the SMEs practicing differentiation strategies give their best to deliver innovative product which offer superior-quality, provide value for money to the customer and helps in attaining elevated growth. Thus, the following hypothesis is proposed:

H2: Differentiation strategy has a significant impact on SMEs performance.

2.4. Entrepreneurial Orientation, Differentiation Strategy and SMEs Performance Relationship

Differentiation strategy, firm performance and entrepreneurial orientation share an obvious relationship, when discussed about extra ordinary results (Porter, 1980). From commencement of current decade, owing to the pace of the globalization, the fervour has increased towards competition forcing the SMEs to analyse the tracing out strategies providing them with continual competitive advantage. The strategies endorsed by these SMEs construct them to differentiate products as well as processes, forcing to innovate continuously (Wang, 2008; Popadiuk & Choo, 2007). Porter (1985) discussed the differentiation strategy in his generic strategies and also indicated its strong relation with innovation and performance. Barney and Hesterly (2006), states differentiation as principally the impression of the people working within the firm, be it individuals or groups. Porter (1988) explains that while comparing to the competitors, the differentiation strategy proves to deliver superior profitability by building brand loyalty as well as low price sensitivity. As a result of differentiation in product and services, customers show less restrain while paying higher prices. Consequently, differentiation strategy curtails sensitivity towards pricing, cutbacks the supremacy by suppliers, builds an influential entry barrier and lessens the threat from competitors. There are various signs of differentiation strategy, be it brand positioning, strong advertisement campaign, innovative marketing techniques, capable distribution channels, technological advancements, superior quality management, enhancement in brand image, goodwill and overall company reputation (Fitzsimmons & Fitzsimmons, 2004; Dess & Davis, 1984). Grant (1991) states DS gives an edge to the SMEs by providing unique products and services which are really difficult to imitate by competitors, ultimately giving them a sustainable advantage. Thus, the following hypothesis is proposed:

H3: Differentiation strategy will mediate the relationship between entrepreneurial orientation and SMEs performance.

On the basis of literature review it can be proposed that DS will positively affect and enhance the EO–SMEs performance. Accordingly the research is based on the following theoretical framework (Figure 1).

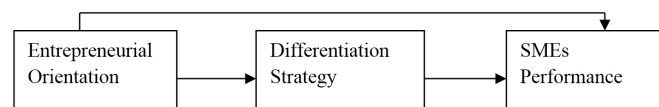


Figure 1: Measurement Model

3. RESEARCH METHODOLOGY

3.1. Data Collection Method

Survey method was used to collect the data, with the help of structured questionnaire. Total of 500 questionnaires were distributed out of which only 234 respondents answered to the questionnaire. The questionnaire is adopted from earlier studies conducted in the similar field of EO, DS and SMEs performance. The questionnaires were filled manually by visiting the SMEs in person, or were sent through e-mail or by post on the address as received from the District Industries Centres (DIC). It was specifically mentioned that the questionnaire should be answered by the entrepreneurs, in order to get better results. The return envelop was sent with the questionnaire or drop and collect technique was used to facilitate the respondents.

3.2. Questionnaire Development

The questionnaire was designed in two parts. The part one consisted of classified questions on demographics related to respondents' background of SMEs, comprising of 8 items. The second part contained 38 items of EO, DS and SMEs Performance. All the dimensions were measured on seven-point Likert scale. Each statement consisted of seven alternatives to choose from; Strongly Disagree = 1, Disagree = 2, Somewhat Disagree = 3, Neither Agree nor Disagree = 4, Somewhat Agree = 5, Agree = 6, Strongly Agree = 7. Many researchers have previously used seven-point Likert scale in their research and have found it to be valid and appropriate to measure EO, DS and SMEs performance (Amin et al., 2015; Boso, Story, & Cadogan, 2013; Covin & Slevin, 2006; George, 2006; Dimitratos et al., 2004; Barrett & Weinstein, 1999; Chadwick et al., 1999; Naman & Slevin., 1993). In this study, EO dimensions and SMEs performance indicators were measured by adapting indicators suggested by Chere (2014), and the differentiation strategy indicators were measured by adapting indicators suggested by Venter (2014).

3.3. Sampling Technique

The present study was conducted on entrepreneurs of SMEs that are primarily involved in manufacturing of food products and beverages, hotels and restaurants, transport and logistics, manufacture of wood and wood products, electrical and electronics manufacture of chemical and chemical products, motor vehicle parts and textiles. This study uses random sampling and the data were collected by using self-administered questionnaires distributed. Of the 500 questionnaires that were distributed, 234 participants completed the questionnaires, representing a response rate of 46.8 percent. Table 1 show the demographic profile of entrepreneurs who responded to questionnaire.

Table 1
Demographic Profile of SMEs

<i>Gender</i>			
Male	79%	Female	21%
<i>Age</i>			
18-25	6.80%	33-40	41.50%
26-32	24.80%	41 & above	26.90%
<i>Qualification</i>			
Upto High School	12.40%	Graduation	35%
Upto Intermediate	42.30%	Post-Graduation & above	10.30%
<i>Employees</i>			
1 to 10	20.50%	25 to 50	17.50%
10 to 25	19.20%	50 to 100	21.80%
<i>Age of Business</i>			
Upto 1 Year	24.80%	6 to 10	24.40%
1 to 5	24.80%	More than 10	26.10%
<i>Turnover</i>			
Upto 10 Lakhs	21.50%	2 Cr to 5 Cr	17.10%
10 to 25 Lakhs	26.10%	5 Cr to 10 Cr	9.80%
25 Lakhs to 2 Cr	20.50%	10 Cr & above	5.10%

(Contd...)

<i>Ownership Structure</i>			
Proprietorship	67.90%	Limited Co.	6%
Partnership	13.20%	Cooperative Society	2.60%
Private Limited Company	10.30%		
<i>Industry Type</i>			
Hotels & Restaurants	13.20%	Wearing apparel, dressing & dyeing products	7.70%
Transport & Logistics	12.80%	Wood & wood products	6.40%
Manufacturing of Food Products & Beverages	12.40%	Manufacturing of Textiles	6.40%
Electrical & Electronics	8.50%	Chemical & Chemical Products	6%
Computer & Related activities	8.10%		

4. DATA ANALYSIS

The study used partial least squares (PLS) structural equation modelling using SmartPLS V2.0 (Ringle, Wende, & Will, 2005) to test the hypothesized model (Figure 1). Before testing the model, the researchers examined common method variance since the data on predictor and criterion variables were collected from the same person (Podsakoff, MacKenzie, Lee & Podsakoff, 2003). Harman's single factor test was carried out to spot this issue. As recommended by Podsakoff et al. (2003), factor analysis using principal component was performed to examine the emergence of a single factor accountable for the majority of the covariance among the measures. In our analysis, the KMO and Bartlett's tests ensure the factorability (Table 2), and the results of factor analysis identified seven factors. The first factor explained 37.36 per cent variance and the total variance explained by all seven factors was 71.94 per cent; hence depleted the chances of common method bias.

Table 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.856
Bartlett's Test of Sphericity	Approx. Chi-Square	5134.564
	Df	465
	Sig.	.000

SmartPLS tests the hypothesized model in two stages. Firstly, it evaluates measurement model to capture the reliability and validity of constructs, and secondly, examines the structural model (Hair, Ringle, & Sarstedt, 2013). Bootstrapping with 2000 resamples was performed to determine the significance levels for factor loadings and path coefficients.

Reliability

The internal consistency is represented through Cronbach's alpha. However, Cronbach's alpha tends to underestimate the internal consistency because of its sensitivity to the number of items in the scale and the sample size (Ringle et al., 2005). Therefore, a more robust measure of internal consistency is the composite reliability (CR). Higher the value of CR, higher will be the reliability. As suggested in the literature, values less than 0.95 but greater than 0.7 are desirable (Hair et al., 2013; Ringle et al., 2005). The table 3 indicates that the values are within the range and demonstrate good reliability.

Table 3

<i>Dimension</i>	<i>Cronbach's Alpha</i>
Autonomy	0.7972
Proactiveness	0.7387
Risk taking	0.672
Innovativeness	0.7044
Differentiation Strategy	0.7037
Entrepreneurial Orientation	0.7075
Competitive Aggressiveness	0.604
SMEs Performance	0.9177

Convergent Validity

To examine convergent validity, loadings of the indicators and AVE measures are taken (Hair et al., 2013). The suggested values of loadings and AVE are 0.7 and 0.5 respectively (Hair et al., 2011). As shown in the Table 4, these values are above threshold values, thus indicating convergent validity.

Table 4
Convergent Validity

<i>First-Order Construct</i>	<i>Second-Order Construct</i>	<i>Item</i>	<i>Loadings</i>	<i>AVE</i>	<i>CR</i>
Competitive Aggressiveness		CA1	0.784	0.604	0.9014
		CA2	0.769		
		CA3	0.797		
		CA4	0.770		
		CA5	0.794		
		CA6	0.748		
Autonomy		AT1	0.869	0.7972	0.9516
		AT2	0.904		
		AT3	0.889		
		AT4	0.886		
		AT5	0.916		
Innovativeness		INN1	0.859	0.7044	0.8771
		INN2	0.869		
		INN3	0.788		
Risk Taking		RT1	0.872	0.672	0.8598
		RT2	0.797		
		RT3	0.788		
Proactiveness		PR1	0.849	0.7387	0.9339
		PR2	0.852		
		PR3	0.854		
		PR4	0.867		
		PR5	0.874		

(Contd...)

<i>First-Order Construct</i>	<i>Second-Order Construct</i>	<i>Item</i>	<i>Loadings</i>	<i>AVE</i>	<i>CR</i>
	Entrepreneurial Orientation	Competitive Aggressiveness	0.625	0.5075	0.9055
		Autonomy	0.749		
		Innovativeness	0.655		
		Risk Taking	0.598		
		Proactiveness	0.641		
Differentiation Strategy			DS1		
		DS2	0.826		
		DS3	0.857		
		DS4	0.828		
		DS5	0.857		
		DS6	0.861		
SMEs Performance		SP1	0.823	0.7086	0.9358
		SP2	0.848		
		SP3	0.837		
		SP4	0.858		
		SP5	0.8659		
		SP6	0.826		

Discriminant Validity

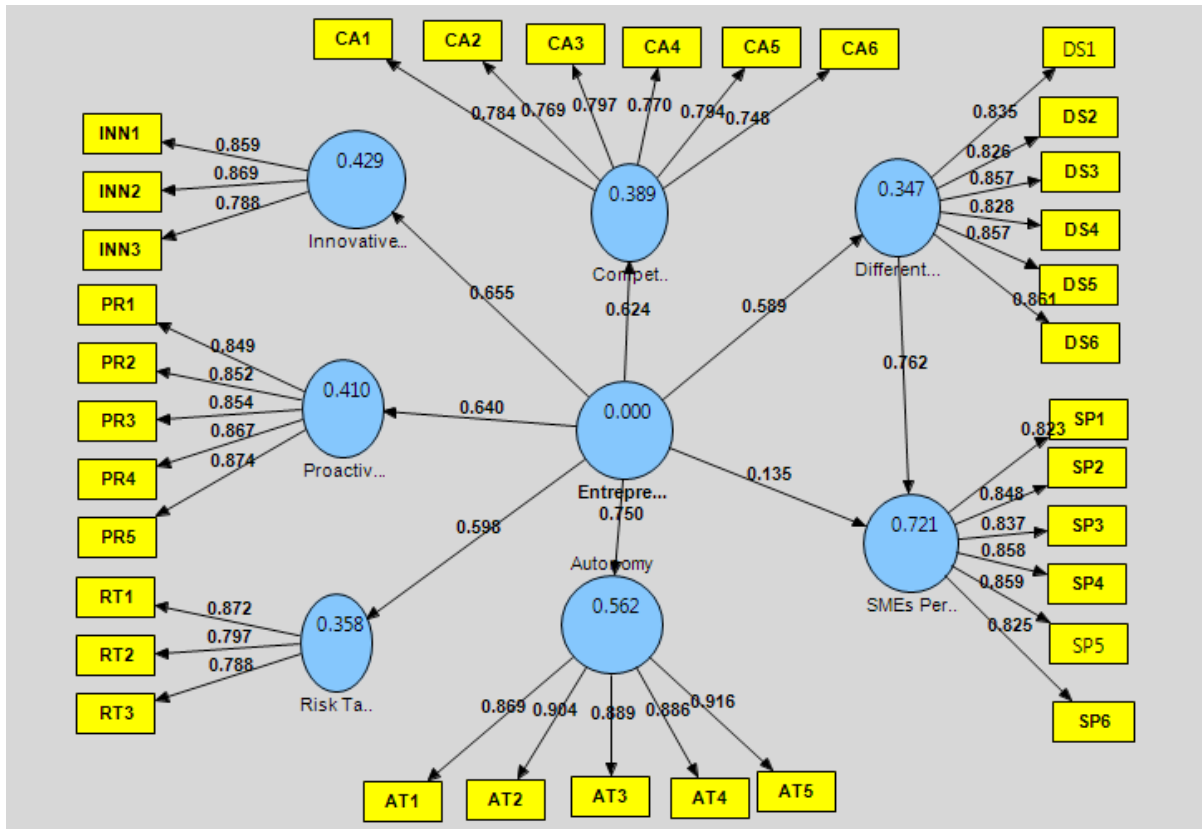
To establish discriminant validity, the study followed the suggestions of Hair et al. (2013). the square root of the AVE values are compared with correlations. As per their recommendations, the square root AVE should be greater than its highest correlation with any other variable. The square root of AVE values are placed at the diagonal of the Table 5. It can be inferred for the table that the square root AVE values are greater than the values in their respective row and column, thus signifying distinct the measures.

Table 5
Discriminant Validity

	<i>Autonomy</i>	<i>Proactiveness</i>	<i>Risk taking</i>	<i>Innovativeness</i>	<i>Differentiation strategy</i>	<i>EO</i>	<i>Competitive Agresiveness</i>	<i>SMEs Performance</i>
Autonomy	0.89							
Proactiveness	0.22	0.86						
Risk taking	0.19	0.14	0.82					
Innovativeness	0.40	0.28	0.40	0.84				
Differentiation strategy	0.25	0.71	0.15	0.26	0.84			
EO	0.65	0.64	0.60	0.65	0.60	0.71		
Competitive Agresiveness	0.34	0.14	0.39	0.32	0.12	0.62	0.78	
SMEs Performance	0.26	0.84	0.13	0.27	0.84	0.59	0.14	0.84

4.2. Structural Equation Modeling – Partial Least Squares

To test the mediation effect, guidelines given by Nitzl & Roldán (2016) have been considered. Tables 6 and 7 show the direct and total effects of structural model analysis. The results indicated a positive and significant relationship between entrepreneurial orientation and differentiation strategy ($\beta = .588, p < .01$). Moreover, differentiation strategy was also positively and significantly related to SMEs' performance ($\beta = 0.763, p < .01$). The results also showed that the indirect effect of entrepreneurial orientation on SMEs' performance was also significant ($\beta = 0.449, p < .01$), indicating that there was a mediating effect. Further to test the size of mediation, we followed the method of VAF (variance accounted for) as suggested by Hair et al. (2013). The value of VAF i.e. 0.79 indicated a case of partial mediation as classified by Hair et al. (2013). The results indicate that there exists a positive and significant relationship between entrepreneurial orientation and differentiation strategy. Thus, H1 is accepted. Further, the relationship between differentiation strategy and SMEs performance is also positive and significance hence supports the acceptance of H2. The study also evidenced a case of partial mediation between entrepreneurial orientation and SMEs performance. Hence H3 is partially accepted.



Discussion

The objective of this study is to examine the effect of DS as a mediating variable in the relationship between EO and SMEs performance. The results of this study found that EO has a significant relationship with DS; thus H1 was supported. The significant relationship between EO and DS shows that SMEs in India are using the characteristics of EO as risk-taking, proactiveness, innovativeness, autonomy and competitive-

Table 6
Direct Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>Standard Error (STERR)</i>	<i>T Statistics (O/STERR)</i>
Differentiation Strategy -> SMEs Performance	0.7613	0.7613	0.0434	0.0434	17.5510
Entrepreneurial Orientation -> Differentiation Strategy	0.5887	0.5883	0.0645	0.0645	9.1227
Entrepreneurial Orientation -> SMEs Performance	0.1354	0.1377	0.0477	0.0477	2.8363

Table 7
Total Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>Standard Error (STERR)</i>	<i>T Statistics (O/STERR)</i>
Differentiation Strategy -> SMEs Performance	0.7613	0.7613	0.0434	0.0434	17.5510
Entrepreneurial Orientation -> Differentiation Strategy	0.5887	0.5883	0.0645	0.0645	9.1227
Entrepreneurial Orientation -> SMEs Performance	0.5841	0.5852	0.0628	0.0628	9.2952

aggressiveness in meeting the purposes of DS. These findings are consistent and indicate the better opportunities for SMEs as characteristics of EO have been influential in playing an important role. EO represented by risk taking, innovativeness and proactive dimension are positively and significantly used in differentiation strategies. Proactive SMEs will be willing to rejuvenate the market offerings; with differentiation strategies, targeted at competitors by taking risk in trying out new and riskier products and services in markets in a better manner as compared to their competitors in order to capture the available opportunities (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005; Zahra & Covin, 1995).

In addition Miller (2011) mentioned differentiation strategy strongly based on product innovation and marketing activities; and will require innovativeness, leading to creation of new products with increased value for the customers, justified price premiums (Porter, 1980, 1985, 1996). As there is low inclination of SME in innovation, more innovativeness in SMEs will enhance their differentiation strategy (Ruyan et al., 2008). Innovativeness can be used by SMEs in gaining the differentiation advantage by providing uniqueness. The achievement of innovative SMEs is linked with various characteristics of performance, for instance cash flows and profitability, and rising possibility of survival (Amin et al., 2015; Boso et al., 2013; Engelen, Kube, Schmidt, & Flatten, 2014; Lumpkin & Dess, 1996). SMEs looking to gain advantage of novel opportunities will perk up their performance.

The relationship between DS and SMEs performance was significant and H2 was supported. This finding is consistent with the previous studies which found DS has enhanced SMEs performance. DS will affect the SMEs performance by avoiding the direct competition and will create small monopolies with the creation of uniqueness (Dowling & McGee, 1994). DS is more appropriate for SMEs performance; as the general requirements for finance are low and is a more readily available strategy for SMEs. Successful DS is based on greater understanding of customer needs and wants, in order to identify what they consider important and valuable, hence achieving better SMEs performance (Alvarez & Barney, 2013). SMEs performance will depend on the execution of DS; the management of the process of maintaining innovativeness and organizational learning within the firm (Porter, 1985). Consequently, Porter (1980) posit

that SMEs who are going to execute strategies based on either differentiation or cost leadership can benefit from superior performance. SMEs providing uniqueness in product and services rendered to customers let their firms to sustain superior performance over time (Porter, 1996).

Meanwhile, DS will mediate the relationship between EO and SMEs performance, and H3 was supported. This study shows the indirect effect of EO on SMEs performance partially mediated by DS and emphasizes the significance of EO in the achievement of the SMEs performance. The study considered the EO-SMEs performance relationship as mediated by a DS (Moreno & Casillas, 2008).

Practical Implications

The findings offer certain implications for industry and academic fraternity. The information can be used by managers to improve SMEs performance in India. The significant relationships among EO, DS and SMEs performance show that firm's ability to come up with differentiation strategy is dependent on the degree of firm's entrepreneurial orientation. The characteristics of EO as competitive aggressiveness, autonomy, innovativeness, risk taking, and proactiveness enable a firm to focus on strategy that is not only different from that of competitors but also provide an opportunity to explore new market prospects. SMEs with differentiation strategy have better chance of capitalizing on innovative ability of the SMEs and their ability to take calculated risk taking yields better performance. This is because if SMEs take high risk and invest heavily, they may find it difficult to sustain these risky projects for longer duration and even may fail (Li et al., 2008; Aragón-Sánchez & Sánchez-Marín, 2005; Wiklund & Shepherd, 2005). Managers can leverage the proactiveness of firm in order to enhance its ability to gather adequate information from market and use it properly for formulating a differentiation strategy that further adds to SMEs performance. The study also offers that if the SMEs embrace risk acceptance in terms of investment and strategic decisions, the performance of SMEs can be improved manifold.

Further, the study implies that entrepreneurial orientation and differentiating strategy cannot be alienated from SMEs performance. This entails thoughtfulness of academicians to carry out in-depth research in recognizing the importance of EO and DS influencing SMEs performance. The present study can also be taken as a step towards identifying EO and DS as key factors in fostering SMEs performance in developing countries. The similar studies can also be taken up by researchers in other developing countries in order to further strengthen the relationships. The study further implies that the researchers must take into account EO and DS while studying the SMEs performance.

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