Impact of Strategic Orientation on Business Performance: Evidence from Ukrainian software development industry

Anastasiia O. Lutsenko, UGSM-Monarch Business School, Switzerland
Dr. Kayhan Tajeddini, Lund University, Sweden

Introduction to the Research.

Being introduced by Joseph Schumpeter, entrepreneurship is regarded as an engine for the economic development (Tajeddini and Mueller, 2012) and a driver for the business performance (Rauch et al., 2009). Herewith, entrepreneurship scholars have tried to answer how and by what entrepreneurial orientation is driven. Previous research indicated that human resource management is one of the antecedents of innovation and entrepreneurship (see, for example, Hayton, 2005). However, apart from few general studies (e.g. Macchitella, 2008; Morris and Jones, 1993), not much research has been focused on the relationship between human resource management and entrepreneurial orientation within the IT industry. In addition, research shows that learning orientation is found to be a valuable antecedent of overall business performance (Baker and Sinkula, 1999; McGuinness and Morgan, 2005; Slater and Narver, 1994; Tajeddini, 2011) and effective for competitive environments (Nonaka, 1991; Senge 1990); and organizational learning mechanisms, in particular. Organizational learning mechanism is seen as a main source of competitive advantage (Nelson and Winter, 2002) and is found to be bases for the innovation for the organization (Cohen and Levinthal, 1990; Nonaka and Takeuchi, 1995; Zollo and Winter, 2002). If organization seeks to adjust to the changing environment and act appropriately, it must be aware of trends and currents; and learn as well as implement new knowledge as quickly as possible (Bessant and Francis, 1999).

Research Question.

In order to develop a competitive and dynamic model, the following research question and sub-research questions were developed (See Appendix A):

What is the effect of entrepreneurial orientation antecedents – human resource management practices and organizational learning mechanisms – on the relationship between entrepreneurial orientation and business performance?

More specifically, the following is investigated:
1) Relationship between human resource management practices (i.e., recruitment practices, training and development programs, reward and compensation programs), organizational learning mechanisms (i.e., internal and external training systems) and entrepreneurial orientation, and;
2) Impact of entrepreneurial orientation, driven by human resource management practices and organizational learning mechanisms, on business performance.

According to Slater and Narver (1995), organisation can achieve its full potential when is driven by its entrepreneurial orientation, which has been recently recognized as one of the most important factors influencing economic development and growth (Ireland, Webb, Coombs, 2005; Keh, Ngueng and Ng, 2007; Tajeddini and Mueller, 2009, 2012). Entrepreneurial orientation is defined as a five-dimensional concept, which includes innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy (Covin and Slevin, 1986, 1989; Lumpkin and Dess, 1996; Miller, 1983). It is recognised as a firm level phenomenon and Lau, Chan, Tai and Ng (2009) concluded that firms with higher level of innovativeness and proactiveness are performing better. However, while relationship between
entrepreneurial orientation and business performance was characterized as stable and positive (Covin and Slevin, 1989; Lumpkin and Dess, 1996; Smart and Conant, 2011; Yang, 2008), it remains not clear whether or not entrepreneurial orientation influenced by different factors has the same impact on the business performance and, moreover, which factors may have greater impact on this relationship and why.

Based on the extensive literature review, it was found that such antecedents as organisational learning mechanisms (OLMs) and human resource management practices (systems) (HRM practices or HRM systems) influence entrepreneurial orientation (EO) significantly (Cohen and Levinthal, 1990; Hayton, 2005; Macchitella, 2008; Morris and Jones, 1993; Zollo and Winter, 2002). According to Schildt, Maula and Keil (2005), OLMs proved its vitality for the entrepreneurial activities, as training was found to be positively related to the innovation processes. (Lau and Ngo, 2004; Shipton, 2006; Zhao, Li, Lee and Chen, 2011) OLMs are also important antecedents for improvement, renewal and sustainable development (Eisenhardt and Martin, 2000; Lillrank and Kano, 1989; Mitki, Shani and Meiri, 1997; Zollo and Winter, 2002) and competitive advantage (Brockman and Morgan, 2003). Moreover, Wang (2008) suggests that entrepreneurial orientation is a determinant of level of learning orientation existing within the organization; and learning orientation is a critical key to business success (Tajeddini, 2009). Human resource management practices – which in this particular research include evaluation and recruitment system, training and development system, and reward and compensation system – also play vital role and are seen as the “key driver[s] for an organization’s success” (Balatbat, 2010; Messersmith and Wales, 2011; Wright and McMahan, 1992) and characterized as a strategic decision for business (Sharma and Khanderkar, 2005). Moreover, Ulrich and Lake (1990) argue that “HRM systems can be the source of organizational capabilities that allow firms to learn and capitalize on new opportunities”.

However, it was not confirmed whether or not the relationship between human resource management practices, organisational learning mechanisms and entrepreneurial orientation positively or negatively influence overall business performance. More specifically, apart from small number of works (i.e. Manev, Gyoshev and Manolova, 2005), this question was not answered for emerging economies, for economies of countries with the unstable political situation or at the state of war. This question, therefore, might be seen as urgent, as all these factors influence human activity as well as business activity intensiveness and productivity and overall economic grown. Therefore, Ukraine has been chosen as a platform for the present research.

Following the argument outlined above and, in order to address full spectre of parameters, dynamic, innovative and sensitive to human factor and economic change industry has been chosen for the research. This industry is Information Technologies sector of Ukrainian economy and the outsourcing software development for external (not Ukrainian) customers, specifically.

Hypotheses.

Consequently, aiming to answer the above mentioned questions the following hypotheses were formulated (having in mind multi-dimensionality of the research framework components and aiming to get better understanding of the nature of the relationship between them, below mentioned hypotheses are divided into the sub-hypotheses) (See Appendix B):

H1: There is a positive relationship between the HRM practices and the entrepreneurial orientation in IT companies in Ukraine;

H2: There is a positive relationship between organization learning mechanisms and entrepreneurial orientation in IT companies in Ukraine, and;

H3: There is a positive relationship between the entrepreneurial orientation and business performance in IT companies in Ukraine.

Herewith, the framework of the research is the following.
Figure 1. Framework of the Research

Methodology of the Research.

In terms of philosophy of the research and based on the objectives and scope of the present research positivists paradigm will be used. This is due to the following reasons. Present research is: (1) aiming at investigate human experience; (2) aiming to empirically observe real events and explain them with the use of logical analysis.

In terms of strategy and aiming to test the proposed hypotheses, and to answer the following research question, deductive-inductive approach has been selected. Mix of two – Quantitative and Qualitative analysis – is used within the present research and will be implemented in the following sequence of 10 stages, which are separated in order to get optimal result in each of them (See Appendix C): During the Pre-dissertation stage (1) Preliminary Literature Review is concluded. It is followed by the (2) In-Depth Literature Review. Subsequently, based on the gained knowledge (3) Content Analysis is performed within the research. Results are outlined in the Chapters 1 and 2. (4) Field Research Design including Questionnaires and Interviews Design, which are going to be outlined in Chapter 4, follows above mentioned. Afterwards, (5) Field research is to be conducted and (6) Field Research Content Analysis and (7) Second Phase of In-Depth Literature Review is to be performed, as a preparation part for the (8) Triangulation process, which is planned to be highlighted within Chapter 4 of the present research. As a result, of triangulation (9) Gap Analysis is to be presented and framed in Chapter 5, as well as its results. Finally and lastly, (10) New Framework Development stage is to be challenged and outlined within the Chapter 5, as well. Discussion and Conclusions will be systemized within Chapter 6.

Expected Outcomes.

As a result of present research, positive relationship between entrepreneurial orientation influenced by two antecedents – human resource management practices and organizational learning mechanisms – and business performance is expected to be confirmed for software development sector of Ukrainian economy. If positive relationship exists, this will allow transfer developed model to other similar economies.

Potential Contribution.

Based on the extensive literature critique, it was found that the following knowledge gaps will be covered and contribution will be made:
1. Knowledge in the field of correlation between HRM practices and entrepreneurial orientation for IT industry of Ukraine, as well as for the domain of relationship between OLMs and entrepreneurial orientation for IT industry of Ukraine;
2. Information about impact of HRM practices and OLMs on the relationship between entrepreneurial orientation and business performance for IT industry of Ukraine, and;
3. Gained knowledge in the above mentioned domains can be useful in sense of boosting personnel productivity and, as a result, overall economic development and growth, if applied to other similar emerging economies of developing and unstable countries.
Appendix A – Research Question and Sub-Research Questions

In order to fully address the research question, a series of Sub-Research Questions have been developed.

<table>
<thead>
<tr>
<th>#</th>
<th>Main Research Question:</th>
<th>The Sub-Research Questions (SRQ):</th>
</tr>
</thead>
</table>
| 1. | What is the effect of entrepreneurial orientation antecedents – human resource management practices and organizational learning mechanisms – on the relationship between entrepreneurial orientation and business performance? | SRQ-1: What is the relationship between the HRM practices and the entrepreneurial orientation in IT companies in Ukraine?  
SRQ-2: What is the relationship between organization learning mechanisms and entrepreneurial orientation in IT companies in Ukraine?  
SRQ-3: What is the relationship between the entrepreneurial orientation and business performance in IT companies in Ukraine? |
Appendix B - Hypotheses and Sub-Hypotheses

For those components of the framework, which include sub-components, the following sub-hypotheses will be tested in order to answer these sub-research questions and the main research question, as a result.

<table>
<thead>
<tr>
<th>#</th>
<th>Hypothesis</th>
<th>Sub-Hypotheses</th>
</tr>
</thead>
</table>
| 1 | **H1:** There is a positive relationship between the HRM practices and the entrepreneurial orientation in IT companies in Ukraine. | **H 1a:** There is a positive relationship between Evaluation and recruitment and entrepreneurial orientation of the organization within the IT industry of Ukraine.  
**H 1b:** There is a positive relationship between Training and development system and entrepreneurial orientation of the organization within the IT industry of Ukraine.  
**H 1c:** There is a positive relationship between Compensation and rewards system and entrepreneurial orientation of the organization within the IT industry of Ukraine. |
| 2 | **H2:** There is a positive relationship between organization learning mechanisms and entrepreneurial orientation in IT companies in Ukraine. | None |
| 3 | **H3:** There is a positive relationship between the entrepreneurial orientation and business performance in IT companies in Ukraine. | **H 3a:** There is a significant relationship between innovativeness and business performance in IT firms of Ukraine.  
**H 3b:** There is a significant relationship between risk-taking and business performance in IT firms of Ukraine.  
**H 3c:** There is a significant relationship between proactiveness and business performance in IT firms of Ukraine.  
**H 3d:** There is a significant relationship between autonomy and business performance in IT firms of Ukraine.  
**H 3e:** There is a significant relationship between competitiveness and business performance in IT firms of Ukraine. |
Appendix C – Methodology of the Research

Pre-Dissertation Stage

1. Preliminary Literature Review

Dissertation Writing Stage

2. 1st Phase of In-Depth Literature Review
3. Literature Review Content Analysis
4. Field Research Design including Questionnaires and Interviews Design
5. Field Research
6. Field Research Content Analysis
7. 2nd Phase of In-Depth Literature Review
8. Triangulation
9. Gap Analysis
10. New Framework Development
References.


